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Office Memorandum

MAR 6 1984

To: The Managing Director
The Deputy Managing Director

March 6, 1984

From: Hans Schmitt

Subject: Yugoslavia--Use of Fund Resources

A staff team comprising Messrs. Hansen and Lewis (EUR), Mr. Petersen (ETR), Miss Owen (TRE) as secretary, and myself visited Yugoslavia from February 16 to March 2, 1984. Preliminary agreement was reached on the attached draft letter of intent. The mission met with Messrs. Dragan and Cukovic, Vice Presidents of the Federal Executive Council; Mr. Smole, member of the Federal Executive Council; Mr. Klemencic, Federal Secretary for Finance; Messrs. Makic and Veljkovic, Governor and Deputy Governor, respectively, of the National Bank of Yugoslavia; and other officials.

The proposed program for 1984 is addressed to the following problem. The balance on external current account in convertible currencies improved sharply in 1983, from a deficit of US$1,600 million (about 3 percent of GSP) to a surplus of US$300 million, as shown in the attached table. However, an opposite swing in the capital account more than offset it, and reserves ended US$55 million lower at the end of 1983 than a year before. Errors and omissions alone swung from an inflow of US$660 million in 1982 to an outflow in 1983 of more than US$1,200 million. The program therefore places particular emphasis on improving the balance on capital account, while safeguarding the momentum of improvement in current transactions.

The main feature of this year's program is a sharp increase in interest rates. Forty percent of the gap between present rates and a target real interest rate is to be closed by May 1, 1984, and the rest in four additional steps by March 31, 1985. The first step will raise nominal interest rates on three-month dinar-denominated deposits for households from 12 percent to about 30 percent. It is expected that this move, by significantly reducing the short-term capital outflow from Yugoslavia, will permit an increase in external reserves of US$500 million. The progressive attainment of this reserve target was made a performance criterion.

A central feature of last year's stabilization program was a real depreciation of the exchange rate. By the end of the year it had reached a little more than 25 percent rather than the 30 percent originally targeted, and has since narrowed further to about 15 percent as the nominal rate was stabilized after the last test date in November. The real depreciation rate is now to be restored in two steps to just under 25 percent by the end of June 1984, and to be held there by monthly adjustments in the nominal effective exchange rate to offset inflation

differentials. It is expected that an adequate price incentive will remain to further increase the convertible current account surplus, from US$300 million to US$500 million, despite some recovery in economic activity and imports.

Exchange rate action last year was supported by a tight monetary policy--the real money stock declined by 12 percent. Nevertheless, in response mainly to the aggressive depreciation of the exchange rate, the increase in retail prices accelerated from 31 percent during 1982 to 58 percent during 1983. Also, a sharply declining real interest rate caused the velocity of circulation of broad money to increase rapidly, limiting the decline in real economic activity to only 1.0 percent. It is assumed that price inflation will moderate in 1984 to about 50 percent through the year. Credit limits have been specified which, on that assumption, will stabilize the real money stock at its end-1983 level. This should accommodate an increase of about 1.0 percent in economic activity, led by a continued recovery of exports.

Fiscal restraint helped substantially in releasing resources for external adjustment last year. There was a positive balance between revenue and expenditure despite a decline in public sector revenue of 5 percent in real terms. Both features are to be carried through into 1984. A minimum increase in the net claims of the public sector on the banking system is incorporated in the credit ceilings, as well as a limit on the increase in public sector revenue to 85 percent of the increase in retail prices. Expenditure cuts are to be concentrated on export subsidies. In addition, the growth in subsidies through Joint Reserve Funds which are not included in the public sector will be limited to one-half the rise in the retail price index.

Wage restraint made another important contribution to the adjustment process in 1983. Real wages in the socialized sector declined by more than 10 percent last year and by about 25 percent over the last four years. Further wage restraint in 1984 is to focus on loss-making enterprises. They are to limit the increase in their nominal wage payments to two-thirds the increase in the wage bill of the socialized sector in the republic or province in which they are domiciled. A similar but more stringent limit is placed on the wage payments per employee of illiquid enterprises until they are again current in their debt service payments. In this way the transfer of labor to the more competitive sectors of the economy is to be accelerated.

The Yugoslav authorities believe, and the mission concurs in their view, that this set of measures is adequate to achieve the current account and reserve objectives in 1984. Even then, much remains to be done, particularly concerning the foreign exchange allocation system. We are not sure that all imports into Yugoslavia were reported last year; if not, then at least part of the capital outflow is more apparent than real. Failure to report imports may be due to continuing inefficiencies in the foreign exchange allocation system, a closer study of which is provided for in the letter of intent, as a basis for further reforms in 1985.

Parliament is expected to ratify the proposed letter of intent by mid-March; if you approve the Board could meet on it the week of April 16, 1984. The first drawing would not take place until after May 1, 1984, the date on which the current price freeze is to be lifted and a number of other policies are to be put in place. The current stand-still on external debt repayments with governments and banks will expire on March 31, 1984 and an extension of at least one month will therefore be required. The next meetings of friendly governments are scheduled for March 23-24, 1984.

May we have your judgment please?

Attachments

cc: Mr. Habermeier
Mr. Hood
Mr. Whittome
Mr. Finch
Mr. Mohammed
Mr. Nicoletopoulos
Paris Office
Geneva Office
Mr. Collins

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2/25/84

Table 1. Yugoslavia: Balance of Payments with the Convertible Currency Area, 1982-84

(In millions of U.S. dollars)

	1982	1983	1984	
			Yugoslav projection	Staff projection
Exports, f.o.b.	5,526	6,271	7,700	7,000
Volume (percentage change)	(...)	(14.6)	(19.1)	(9.4)
Unit price (percentage change)	(...)	(-1.0)	(3.0)	(2.0)
Imports, c.i.f.	9,069	8,069	9,100	8,700
Volume (percentage change)	(...)	(-11.0)	(8.3)	(5.7)
Unit price (percentage change)	(...)	(--)	(4.0)	(2.0)
Trade balance	-3,543	-1,798	-1,400	-1,700
Invisibles (net)	1,941	2,097	2,200	2,200
Workers' remittances	1,663	1,610	1,440	1,550
Tourism	704	875	1,080	1,000
Interest payments	-1,692	-1,489	-1,840	-1,650
Other	1,266	1,101	1,520	1,300
Current account	-1,602	299	800	500
Medium- and long-term capital	-126	1,140	190	250
Drawings	1,815	3,660	3,035	3,195
Repayments	-1,764	-2,363	-2,645	-2,745
Loans extended (net)	-177	-157	-200	-200
Short-term capital through the banking system	-506	-670	--	--
Other short-term capital, errors and omissions	659	-1,234	--	-260
Total	-1,575	-465	990	490
Use of Fund credit	563	410	10	10
Reserve movements (increase -)	1,012	55	-1,000	-500
Memorandum items:				
World economic outlook				
Market growth	-0.9	-0.9	...	2.8
Partner countries' export prices (total)	-2.4	-2.5	...	1.4
Partner countries' export prices (non-oil)	-2.0	0.8	...	2.7

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

DRAFT
March 1, 1984

Dear Mr. de Larosière,

1. The stabilization program which we pursued over the last three years, and which was supported by a stand-by arrangement with the Fund, has begun to show substantial results. In particular, the deficit on external current account in convertible currencies, after reaching a peak of US$3,300 million in 1979, was turned into a surplus of US$300 million in 1983. The swing in the last year alone came to about US$1,900 million. Part of this improvement was due to changes in the regional distribution of trade, and to a compression of imports, neither of which can be continued in 1984. The underlying adjustment, nevertheless, will in our judgment permit a further improvement in the external current account to a surplus in 1984 of at least US$500 million.

2. Developments in the external balance on capital account have been less satisfactory; as a result the increase in external reserves which we had targeted at the beginning of 1983 did not materialize. The most disappointing among the reasons for this outturn has been a swing in transitory items from a surplus of US$660 million to a deficit of perhaps as much as US$1,200 million, which nearly offset the whole of the improvement in the external current account. Apart from safeguarding the momentum of improvement in current transactions, therefore, our

program for 1984 places particular emphasis on measures to improve the balance on capital account, so as to ensure an increase in official external reserves of at least US$500 million.

3. Final domestic demand was cut back by 4 percent in 1983, and though exports to the convertible currency area began to respond forcefully to the gain in competitiveness during the year, gross social product (GSP) still showed some decline. A further reduction in domestic demand will again be necessary for balance of payments reasons in 1984, but as exports continue their recovery we expect that any tendency for GSP to decline will be reversed. The program we have adopted to reach these objectives is set out below. In support of it we request, on behalf of the Federal Executive Council of the Socialist Federal Republic of Yugoslavia, a stand-by arrangement with the Fund in an amount equivalent to SDR 370 million.

Price Policy

4. We see the program for 1984 as a stage in a longer-term stabilization process. Operating at normal capacity, the economy a few years ago ran a deficit on external current account that could not be financed on a sustainable basis. It can return to normal capacity production with external balance only after the structure of production has shifted sufficiently away from sectors that supply mainly domestic markets to sectors that can

supply external markets as well. Such structural change entails temporary inflationary pressure as prices in priority sectors rise relative to those elsewhere. It also requires that many enterprises in the declining sectors retrench or be phased out as those in priority sectors expand.

5. For structural adjustment to take place as smoothly and as rapidly as possible relative prices need to be flexible. In recognition of this point a selective price freeze was allowed to lapse in July 1983, despite the additional push to inflation that it entailed. However, as price adjustments began to show a tendency toward overshooting around the turn of the year, a new price freeze was imposed effective December 23, 1983. Following a cooling off period, this freeze will now be lifted no later than May 1, 1984. From then on the proportion of industrial output free of price control will be expanded from the 45 percent in effect before the latest freeze, to at least 55 percent, leaving some 35 percent with prices subject to approval by the relevant authorities, and 10 percent with prices set by the authorities directly.

6. The latest price freeze was preceded by increases particularly in railway and in electricity tariffs to bring them closer to economic levels. Further increases in relative prices in key sectors, notably railways and electric power, are planned

for later in 1984 and in the years beyond. Periodic checks will ensure that, for the remainder of 1984, both railway and electricity tariffs will do no less than keep pace with increases in producer prices, and that prices of natural gas, oil and oil derivatives rise no less than the dinar exchange rate of the dollar (Annex I). We expect that more frequent and gradual adjustments to such administered prices as are now planned will help to avoid future shocks to the general price level.

Exchange Rates

7. Exchange rate depreciation was one of the important elements in the stabilization program for 1983. By raising the dinar price of exports above producer prices realized at home, it was to provide the major incentive for shifting production toward exports and import substitutes, and thus to permit a return to capacity production with external equilibrium. To calm price expectations, the monthly depreciation of the exchange rate was temporarily discontinued around the turn of the year. However, to achieve a level of competitiveness adequate for a substantial liberalization of our trade and payments system, we shall by June 30, 1984 reach a target real depreciation of about 25 percent since the start of 1983, and hold it there by monthly adjustments sufficient to compensate for inflation differentials from the start of 1984 (Annex II).

8. We have already acted to expand the scope of a unified foreign exchange market. As of the beginning of this year, 54 percent of foreign exchange receipts from the export of goods and nonfactor services is transferred through authorized banks to an account in the National Bank of Yugoslavia to cover specified payments needs, including collective needs in the republics and provinces. The remaining 46 percent is divided into two parts. One part is retained by net exporters to meet their direct and indirect foreign exchange requirements. The rest is sold to authorized banks, which will offer it for sale to net imports or to other banks in the foreign exchange market. Enterprises that cannot service external debts from their own resources or those of associated enterprises may draw in turn on those of their own bank, other banks in the republic or province in which they reside, other banks in the country at large, or the National Bank of Yugoslavia.

9. This is as far as we have carried the liberalization of our payments system to date. We are conscious that, as the flow of foreign exchange to Yugoslavia is normalized, further progress will be possible, based on the consent of those who earn the foreign exchange and to whom it therefore belongs. An official review will be considered in the Assembly of the SFRY by mid-year. We have also consented to a separate study of the operations of the present system by a group chaired by the International Monetary Fund with the assistance of expert consultants from Yugoslavia. This study will be completed not later than

August 31, 1984, in time to be of use during the review of the stand-by arrangement specified in paragraph 24, in defining any further measures that may be deemed necessary to improve the efficiency of the system.

Financial Discipline

10. The restructuring of the economy that will permit a rapid expansion of economic acticity without external risk, needs to be accelerated if inflationary pressures are to be contained. To this end the real resources available for subsidizing firms, some of which should be phased out, need to be reduced. The annual contributions into joint reserve funds for 1984 were already determined before new directives could be implemented (Annex III). However, we have arranged that the percentage increase in payments from such funds during 1984 will be limited to one-half the percentage increase in the retail price index over a year earlier. This will require greater selectivity in the choice of enterprises to be supported, and thus help to accelerate structural change.

11. We are also requiring that basic work units, whose financial deficits caused the 1983 consolidated accounts of the enterprise to show losses, limit the percentage year-on-year growth in their personal income payments in 1984 to two-thirds the growth in the personal income payments in the socialized sector of the republic or province in which they are domiciled. Similarly, with effect from July 1, 1984, illiquid basic work units in enterprises that fail to meet their obligations to creditors when due, will be required until they are

again current in their debt service obligations, to limit the percentage year-on-year growth in their personal income payments per employee, to one-half the percentage growth in the personal income payments per employee in the socialized sector of the republic or province in which they reside.

Interest Rates

12. The acceleration of inflation last year frustrated our efforts to raise interest rates on dinar deposits to more nearly positive levels in real terms. Nominal rates on such deposits were to have been increased substantially at the end of last year, but were left unchanged at their levels of last February. Disregarding the strictly temporary complication introduced by the price freeze, such interest rates accordingly remain substantially negative in real terms, and disadvantage those who switch foreign exchange into dinars. By encouraging delays in payments from abroad, such a situation reduces the supply of foreign exchange for imports. A shortage of imports in turn exacerbates the inflationary pressures that we intend to reduce.

13. A decisive move to raise nominal rates on dinar deposits to more competitive levels has therefore been decided upon. Competitive levels would normally be defined as the yield in dinar terms of comparable deposits abroad. As exchange rate changes are only to equalize inflation differentials, following a corrective adjustment, the twelve-month change in

producer prices plus a target real rate will do equally well. The difference between the initial rate on dinar deposits of three months and the target rate so defined, will be eliminated by April 1, 1985 in progressive installments starting May 1, 1984 (Annex IV). The discount rate and other lending rates of the National Bank of Yugoslavia will be similarly adjusted.

14. A firm timetable for interest rate increases has been set to ensure the attainment of our objectives. Negative real interest rates are an instrument for subsidizing borrowers, the real value of whose debt falls as prices rise, at the expense of depositors, the real value of whose deposits diminishes for the same reason. Unrealistically low interest rates help to maintain uneconomic enterprises, and in view of their adverse impact on external capital flows, they do so in a particularly damaging way. Their correction must nevertheless be phased in order to allow time for the necessary adjustments, and to be accompanied by measures, which we have instituted, to improve the financial structure of viable enterprises, that relied too heavily on debt financing in the past.

Credit Ceilings

15. Credit ceilings will again be required to ensure that the total claims on resources in the economy do not exceed the available supply, and that within this constraint priorities are clearly defined and enforced. In the process, structural

adjustment will again be advanced and inflationary pressures moderated. During 1983 the stock of broad money declined by some 12 percent in real terms, due in part to a rate of inflation that turned out to be higher than originally assumed. A certain degree of flexibility was provided by the exclusion from the ceilings on net domestic assets of the banking system, by which monetary policy is defined, of valuation changes in net foreign liabilities and in foreign exchange deposits, but not so much as to thwart the intended effect of the ceiling.

16. Because of the uncertainty regarding inflation, we have again chosen to define our monetary ceilings in terms of the net domestic assets of the banking system, excluding valuation changes on net foreign liabilities and on foreign currency deposits. In fixing them for 1984 we have also taken into account the probable effects of interest rate increases on the desire to hold money. On this basis we calculate the ceiling for end-December 1984 at Din 4,633 billion compared with Din 3,942 billion a year earlier. A quarterly phasing of this increase through the year has been set (Annex V). Within each total, allowance is made for the planned increases, described below, in the net asset position of the public sector with the banking system.

Public Finance

17. The public sector will continue to contribute substantially to the improvement in the external balance, and to the moderation in inflationary pressure, by further reducing both its revenues and expenditures in real terms. For the republics and provinces, the cumulative quarterly year-on-year increase in revenue for general and collective consumption will be limited to 75 percent of the cumulative year-on-year percentage rise in total income of the socialized sector, except for the first quarter in which revenues are not to exceed their nominal level in the last quarter of 1983. Although federal and other revenues are exempt from this limit, the quarterly increase in total public sector revenue will be limited to 85 percent of the increase in the retail price index over the previous year, and will be monitored in that way (Annex VI).

18. Over the past few years public expenditures have risen even more slowly than revenues, and net assets with the banking system have accumulated commensurately. The increase in such assets was due in part to the requirement to deposit excess revenue in blocked accounts set up under the last stand-by arrangement. This practice permitted a larger expansion of credit to the productive sector within a given overall credit ceiling. To serve the same purpose more simply in 1984 we have set a minimum level for the public sector's net assets with the banking system, phased quarterly over the year. The amount of the increase, at

Din 40 billion, is comparable to the 1983 performance in relation to public sector revenue as presently forecast (Annex VII).

19. Expenditure restraint will be concentrated on the payment of subsidies, particularly on subsidies to exporters who will receive sufficient stimulus by way of the exchange rate. Specifically, payments to export producers by the Community of Interest for Foreign Economic Relations, other than the customs duty drawback and the contribution to agricultural support funds, will be progressively reduced or eliminated in 1984. There will be no change in the proportion of import duties and fees credited to that Community. The resulting surplus revenues of that Community will be channeled into the blocked accounts set up under last year's stand-by arrangement. These deposits will not add to the growth already stipulated for the public sector's net assets with the banking system; they will rather be a component of it.

External Debt

20. We expect by these various measures to reach, and even to exceed, our external current account objectives and also to improve our performance on capital account. We are determined to begin reducing our external debt as soon as possible. Gross borrowing last year came to the equivalent of about US$4.3 billion; we expect to limit our requirements this year to US$3.3-3.5 billion (Annex VIII). To secure this amount we have again entered into arrangements with a group of creditor governments

and banks to refinance debt falling due, and expect to draw a limited amount of fresh money to build up the reserves. We will make the progressive buildup of our reserves, by a total of US$500 million, a test of the success of our program (Annex IX).

21. Despite the scarcity of resources a certain outflow of capital from Yugoslavia is normal and acceptable. However, the outflow of export financing and short-term capital of roughly US$2.0 billion in 1983 was clearly excessive. We will spare no effort to reduce such flows to no more than US$500 million in 1984, and to cover them by an equivalent surplus on current account in convertible currencies. One central element in achieving this reduction in capital outflow is our move to an active interest rate policy. In addition, we have itensified the application of controls on the repatriation of export earnings. If exporters fail to repatriate export proceeds within 90 days their credit line for that export will be withdrawn.

22. We have also decided to facilitate an accelerated drawdown on external lines of credit, particularly of the supplier credits granted by the Berne group of governments. The administrative regulations governing their utilization proved too restrictive in 1983. In order to ensure the availability of foreign exchange to repay the foreign credits, drawings were made available only to exporters who had proof of export orders in hand, and raw material imports financed by supplier credits have had to amount to less than 50 percent of the value of the export into which

they entered. Along with the improvements in the foreign exchange allocation mechanism, the close link has now been broken between exports and imports in the allocation of external credits, so as to allow the financing of imports of general interest to the economy.

Other Matters

23. The Federal Executive Council of Yugoslavia does not intend to introduce any multiple currency practices or introduce new or intensify existing restrictions on payments and transfers for international transactions or enter into any bilateral payments arrangements with Fund members. A limitation on the export and import of dinars for travel to Din 1,500 per person for the first trip, and to Din 200 per person for each subsequent trip within one year, has helped to reduce illegal currency transactions, and will be removed as soon as circumstances permit. The Federal Executive Council does not intend to introduce new restrictions or intensify existing restrictions on imports for balance of payments reasons.

24. The Federal Executive Council believes that the policies set forth in this letter are adequate to achieve the objectives of its program but will take any additional measures that may have become appropriate for this purpose. The Yugoslav authorities will review economic developments in 1984 with the staff of the

Fund on a quarterly basis. They will consult with the Fund as soon as is practicable after September 1984, and in any case not later than November 30, 1984 to agree with the Fund on any modifications and extensions of the performance criteria that may be appropriate during the stand-by period. Finally, the Federal Executive Council will consult with the Fund, in accordance with the Fund's policies on consultations, on the adoption of any measures that may become appropriate.

Sincerely,

TECHNICAL MEMORANDA

March 1, 1984

1. Price Adjustments

2. Calculation of the Index of the Exchange Rate.

3. Financial Discipline in the Enterprise Sector

4. Interest Rates of Yugoslav Banking System

5. Domestic Assets of the Yugoslav Banking System

6. Public Sector Revenue Ceiling

7. Net Assets of the Public Sector with the Banking System and the Blocking of Excess Revenue of the Community of Interest for Foreign Economic Relations in the National Bank of Yugoslavia

8. External Borrowing Limits

9. Balance of Payments Test

ANNEX I
March 1, 1984

Subject: Technical Note on Price Adjustments

1. Railway tariffs will be increased periodically in the course of 1984 such that, on average, they are at least 10 percent higher than the average level of railway tariffs at the end of December 1982, multiplied by the index of industrial producer prices expressed with a base of December 1982 equal to 1.00, as indicated below:

Average railway tariffs shall be a minimum of 10 percent higher than the average at the end of December 1982, multiplied by the index of industrial producer prices, with a base of December 1982 equal to 1.00, for the month of:	Corresponding average level of tariffs to be made effective not later than:
April 1984	June 30, 1984
October 1984	December 31, 1984

For the purpose of this calculation, the increase in freight rates and in passenger fares are assumed to have weights of 80 percent and 20 percent, respectively, in the share of railway revenue.

2. Electricity tariffs will be adjusted periodically in the course of 1984 such that the adjusted electric power subindex of the industrial producer price index, with a base of March 1983 equal to 100, is at least 15 percent higher than the industrial

producer price index that covers the same length of time, but with a lag of one month, as shown below. For this purpose the industrial producer price index is expressed with a base of February 1983 equal to 100.

The adjusted electric power price index (March 1983 = 100) for the month of:	Shall be at least 15 percent higher than the industrial producer price index (February 1983 = 100) for the month of:
June 1984	May 1984
December 1984	November 1984

3. The adjusted electric power subindex for a specified month is equal to the official electric power price subindex also expressed with a base of March 1983 equal to 100, divided by the seasonal coefficients. The seasonal coefficients listed below permit a comparison of electricity tariff schedules between months involving both winter and summer tariffs. In particular, the coefficients indicate what the relative movement of the published electricity price index would have been in the course of 1983, if there had not been increases in the set of tariff schedules but only the usual shifts between winter and summer tariffs.

Seasonal coefficients	
January	1.210
February	1.210
March	1.000
April	0.871
May	0.879
June	0.879
July	0.879
August	0.879
September	1.081
October	1.210
November	1.210
December	1.210

4. The average producer prices of domestic natural gas, of crude petroleum and of petroleum products (including gasoline, kerosene, diesel oil, fuel oil and LPG) will be increased on a quarterly basis by no less than the percentage increase in the dinar/U.S. dollar exchange rate in the course of 1984, as shown below:

Minimum Percentage Increase in Each of the Domestic Natural Gas, Crude Petroleum, and Petroleum Products Prices Over Those in Effect as of January 31, 1984

Equal to the percentage increase in the exchange rate, dinars per U.S. dollar, from December 31, 1983 until:	To be made effective no later than:
March 31, 1984	April 30, 1984
May 31, 1984	June 30, 1984
August 31, 1984	September 30, 1984
November 30, 1984	December 31, 1984

5. The price adjustments specified in paragraphs 1-4 above are understood to be minima and will not bar other increases in prices in real terms that may be agreed upon with the World Bank.

6. A record of the price increases stipulated in paragraphs 1-4 will be published, as they take place, in the Official Gazette of the Socialist Federal Republic of Yugoslavia or in the official gazette of the relevant republic or province.

ANNEX II

March 1, 1984

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

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

1. The real exchange rate of the dinar is expressed as 0.35 (deutsche mark per dinar) plus 0.24 (Italian lire per dinar) plus 0.15 (U.S. dollars per dinar) plus 0.12 (French francs per dinar) plus 0.06 (Austrian schillings per dinar), plus 0.04 (Swiss francs per dinar) plus 0.04 (pounds sterling per dinar) with a base of December 31, 1983 equal to 100 for each bilateral exchange rate of the dinar, multiplied by the ratio of an index of the movements in Yugoslavia's industrial producer prices to a weighted index of the movements in industrial producer prices in the foregoing seven countries as specified in section 3 below.

2. 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 December 31, 1983.

3. The weighted index of industrial producer prices in the foregoing seven countries is defined as 0.35 (index of German prices for industrial products) plus 0.24 (index of Italian wholesale prices) plus 0.15 (index of U.S. wholesale prices for industrial goods) plus

0.12 (index of French prices of industrial goods) plus 0.06 (index of Austrian wholesale prices) plus 0.04 (index of Swiss prices for home goods) plus 0.04 (index of U.K. prices of industrial output) 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 December 31, 1983.

4. 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. No later than 10 days after the end of each month, the following data as of the end of the month will be telexed to the Fund: dinar exchange rates of each of the seven foreign currencies, and the indices of the nominal exchange rate, the real exchange rate, Yugoslav industrial producer prices, the weighted average of seven foreign industrial price indices, and relative industrial prices, where each index is expressed with a base of December 31, 1983 equal to 100.

5. The index of the real exchange rate of the dinar, with a base of December 31, 1983 equal to 100, will be no higher than 110.4 at the end of March 1984, no higher than 105.8 at the end of April and end of May 1984, and no higher than 101.3 at the end of June 1984 and at the end of each month thereafter. A margin of error of 1.0 percentage point will be acceptable.

ANNEX III
March 1, 1984

Subject: Technical Note on Financial Discipline in the Enterprise Sector

1. For the purpose of this agreed memorandum, a loss-making enterprise is understood to mean any work organization in the socialized sector, which for the calendar year 1983 registered a financial loss in its annual financial report to the SDK, as determined before taking into account any outside grants, subsidies, or credits which may be used to cover such losses. Cumulative quarterly limits on personal income payments will apply to all loss-making basic organizations of associated labor (BOAL) within each loss-making enterprise for the periods shown below and will be calculated such that the percentage increase in total payments of personal incomes by all such loss-making BOALs over the corresponding period of the preceding year will be no more than 67 percent of the percentage increase in total payments of personal incomes in the socialized sector in the republic or autonomous province in which the enterprise is domiciled, over a similar period of time but with a lag of one quarter. If an enterprise with a financial loss in 1983 registers a financial surplus for the first nine months of 1984, the above restriction on payments of personal incomes by its BOALs will be lifted in the fourth quarter of 1984 after these results become known.

	Periods for which the Percentage Increases in Total Payments of Personal Incomes Shall be Calculated	
	Personal Income Payments by Affected Loss-Making BOALs	Personal Income Payments in the Socialized Sector
Second quarter	Jan.-June 1984 / Jan.-June 1983	Oct. 1983-March 1984 / Oct. 1982-March 1983
Third quarter	Jan.-Sept. 1984 / Jan.-Sept. 1983	Oct. 1983-June 1984 / Oct. 1982-June 1983
Fourth quarter	Jan.-Dec. 1984 / Jan.-Dec. 1983	Oct. 1983-Sept. 1984 / Oct. 1982-Sept. 1983

2. For a BOAL with overdue obligations to creditors due and/unpaid that is in a similarly illiquid work organization, the percentage growth of payments of personal incomes per employee will be restricted to 50 percent of the percentage growth of payments of personal incomes per employee in the socialized sector of the relevant republic or province. Beginning with the month after such an enterprise has eliminated all payments arrears, the restriction on personal income payments will be lifted, provided that the clearing of arrears did not include grants or borrowing other than bank credit on commercial terms. Legislation to that effect will be implemented by July 1, 1984.

3. Exceptions to the limitations in sections 1 and 2 will be made for loss-making BOALs in the following branches: electricity (0101), coal production (0102), ferrous metals (0107), production of foodstuffs (0130), health and social security (1300), and railways (0601).

4. Any increase, in nominal terms, in payments (including credit extended) from Joint Reserve Funds, which have been formed outside of any one work or composite organization of associated labor, will be subject to cumulative quarterly limits, such that the percentage increase in payments from joint reserve funds (including both grants and credits) will be no more than 50 percent of the percentage increase in the retail price index over a similar period of time but with a lag of one quarter, as shown below:

	Periods for which the Percentage Increases in Joint Reserve Funds' Outlay for Grants and Credits and the Retail Price Index shall be Calculated	
	Outlays of Reserve Funds	Retail Price Index
Second quarter	Jan.-June 1984 / Jan.-June 1983	Average (6 mos. to March 1984) / Average (6 mos. to March 1983)
Third quarter	Jan.-Sept. 1984 / Jan.-Sept. 1983	Average (9 mos. to June 1984) / Average (9 mos. to June 1983)
Fourth quarter	Jan.-Dec. 1984 / Jan.-Dec. 1983	Average (12 mos. to Sept. 1984) / Average (12 mos. to Sept. 1983)

ANNEX IV
March 1, 1984

Subject: Technical Note on Interest Rates of the Yugoslav Banking System

1. It is agreed that for three-month dinar deposits of households, the interest rate will be adjusted on May 1, 1984 so as to eliminate 40 percent of the difference between the nominal interest rate as of January 1, 1984 and the target nominal interest rate which is calculated as defined in section 2 below. Enterprises will receive the same interest rate on three-month deposits as apply to households. The three-month interest rate will be adjusted on July 1, 1984 to eliminate 55 percent of the difference between the target nominal interest rate as of that date and the rates in effect on January 1, 1984. Similarly, on October 1, 1984 70 percent of the difference, and on January 1, 1985 85 percent of the difference between the interest rate as of January 1, 1984 and the target nominal interest rates on the respective dates will be eliminated. On April 1, 1985 the interest rate for three-month deposits will be set at its target nominal level.

2. The target nominal interest rate for three-month dinar deposits of households and enterprises is equal to the percentage increase in the industrial producer price index over the preceding 12 months plus 1 percentage point. Thus, for the purpose of adjusting interest rates on May 1, 1984 the target rate for three-month dinar deposits will be based on the percentage increase in producer prices from March 1983 to March 1984.

3. The discount rate of the National Bank of Yugoslavia will be increased on May 1, 1984 to the same level as the new three-month dinar deposit rate. Thereafter, the discount rate will be adjusted according to

the method and timing described in section 1 on the basis of the same target nominal interest rate that applies to three-month dinar deposits. Adjustments to interest rates of the National Bank of Yugoslavia on credits for selective purposes will be three-quarters of the contemporaneous adjustment, in percentage points, of the discount rate of the National Bank of Yugoslavia, beginning with the adjustment in May 1984.

4. Any modifications in the schedule of changes in interest rates that in the view of the Yugoslav authorities may become necessary will be reviewed with the Fund in the context of the consultation specified in paragraph 24 of the letter of intent.

ANNEX V
March 1, 1984

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

1. The banking system is defined as the consolidated accounts of the national banks and 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 1983 (In billions of dinars)
Net foreign liabilities	1,202
Plus M2 (money and quasi-money)	2,927
Minus public sector deposits	187
Net domestic assets	3,942

2. In setting the ceiling for NDA the effects of changes in the exchange rate on the net foreign liabilities of the banking system, and on foreign currency liabilities which are included in quasi-money, are excluded by applying the necessary valuation adjustment (cumulative from end-December 1983) to the relevant data. It is understood that the foreign exchange proceeds of any special assistance will be shown both as an asset and a foreign exchange liability of the National Bank of Yugoslavia.

3. It is agreed that NDA for the end of December 1984 shall not exceed Din 4,633 billion compared with the level of Din 3,942 billion at the end of December 1983. Further, the authorities will ensure that NDA will not exceed the ceilings established in the attached Table 1.

Table 1. Yugoslavia: Credit Ceilings

(In billions of dinars)

		Net Domestic Assets of the Banking System
1984	January-June 1/	4,117
	June 2/	4,239
	July-September 1/	4,378
	September 2/	4,410
	October-December 1/	4,570
	December 2/	4,633

1/ Average of end of month data.
2/ End-month data.

4. Any modifications in the ceilings on net domestic assets that in the view of the Yugoslav authorities may become necessary will be reviewed with the Fund in the context of the consultation specified in paragraph 24 of the letter of intent.

ANNEX VI
March 1, 1984

Subject: Technical Note on Public Sector Revenue Ceiling

Public sector revenue for the purpose of this ceiling is defined to comprise revenue of sociopolitical communities plus revenue for collective consumption, which totals Din 1,172.553 billion in 1983. Cumulative quarterly limits on public sector revenue will apply for the periods shown below and will be calculated such that the percentage increase in public sector revenue over the corresponding period of the preceding year will be no more than 85.0 percent of the percentage increase in the retail price index over the same length of time but with a lag of one quarter, as shown below. A margin of error of Din 2.0 billion will be acceptable.

	Periods for which the Percentage Increases in Public Sector Revenue and the Retail Price Index shall be Calculated	
	Public Sector Revenue	Retail Price Index
Second quarter	$\frac{\text{Jan.-June 1984}}{\text{Jan.-June 1983}}$	$\frac{\text{Average (6 mos. to Mar. 1984)}}{\text{Average (6 mos. to Mar. 1983)}}$
Third quarter	$\frac{\text{Jan.-Sept. 1984}}{\text{Jan.-Sept. 1983}}$	$\frac{\text{Average (9 mos. to June 1984)}}{\text{Average (9 mos. to June 1983)}}$
Fourth quarter	$\frac{\text{Jan.-Dec. 1984}}{\text{Jan.-Dec. 1983}}$	$\frac{\text{Average (12 mos. to Sept. 1984)}}{\text{Average (12 mos. to Sept. 1983)}}$

ANNEX VII
March 1, 1984

Subject: Technical Note on the Net Assets of the Public Sector with the Banking System and the Blocking of Excess Revenue of the Community of Interest for Foreign Economic Relations in the National Bank of Yugoslavia

1. The net assets of the public sector with the banking system are defined as total deposits of the Federal Government, other sociopolitical communities and communities of interest for collective consumption with the national banks and basic and associated banks, minus credits (including purchases of bonds and notes) extended by these banks to the said public sector entities. Excess public sector revenue blocked in the National Bank of Yugoslavia in 1983 and after is included in the assets of the public sector. The net asset position of the public sector with the banking system is calculated to equal the sum of the following items in the monetary survey:

	End-December 1983 (In billions of dinars)
1. Deposits of Federal Government, other sociopolitical communities and communities of interest for collective consumption with NBY	22.3
2. Excess public sector revenue blocked in accounts with the NBY (excluding deposits of citizens)	4.2
3. Deposits of Federal Government, other sociopolitical communities and communities of interest for collective consumption with basic and associated banks	164.3
4. = (1 + 2 + 3) Total public sector deposits	190.8

5.	NBY credit (including bonds) to Federal Government	83.3
6.	NBY credit (including bonds) to other sociopolitical communities and communities of interest for collective consumption	8.4
7.	Basic and associated bank credit (including bonds) to the Federal Government, other sociopolitical communities and communities of interest for collective consumption	41.7
8.	= (5 + 6 + 7) Total public sector credit	133.4
9.	= (4 - 8) Net asset position of the public sector with the banking system	57.4

2. It is agreed that for 1984 payments from the Community of Interest for Foreign Economic Relations (CIFER) to export producers will be limited as follows. For the customs duty drawback on export production and for subsidies through agricultural funds, rates set in relation to exports will remain unchanged from 1983. Rebates for taxes and contributions out of personal and enterprise incomes, as well as rebates for gasoline coupons for tourists, will be abolished at the end of September 1984. Also, rates of rebates for transportation costs will be halved at the end of September 1984, and subsidies for advertising abroad for tourism and industry will be reduced from 1 percent to 0.5 percent of the value of exports by January 1, 1985. Further, it is understood that 59.7 percent of all customs duties and import fees will continue to be credited to the CIFER. Excess revenue of the CIFER will be transferred to the Federal Government's blocked account with the National Bank of Yugoslavia and thus contribute to the increase in the net asset position of the public sector with the banking system.

3. It is agreed that the net asset position of the public sector with the banking system at the end of December 1984 shall be no less than Din 97 billion, compared with Din 57 billion at the end of December 1983. Further, the authorities will ensure that the net position of the public sector with the banking sector shall be no less than Din 60 billion at the end of June 1984, nor less than Din 85 billion at the end of September 1984.

ANNEX VIII
March 1, 1984

Subject: Technical Note on External Borrowing Limits

In 1984 disbursements on loans with maturities of between one and up to 12 years will be limited to a maximum of US$3.5 billion of which no more than US$1.8 billion will be loans with maturities of less than 5 years. Net drawings on short-term credit with a maturity of less than one year will be limited to US$0.5 billion in 1984. The limits on all maturities include loans contracted by commercial banks and loans contracted directly or guaranteed by the National Bank or any other public sector entity and also include refinancing under multilateral exercises of maturities due in 1984.

ANNEX IX
March 1, 1984

Subject: Technical Note on the Balance of Payments Test

1. The aim of the program is to achieve an increase in the combined convertible external reserves of the National Bank of Yugoslavia and the commercial banks of at least US$500 million during 1984. Given the seasonal pattern of the receipts from services and to some extent from exports, the balance of payments is likely to record an overall deficit during the first half of 1984. Nevertheless, foreign reserves as defined below, and adjusted for any increase in short-term debt, which reached the level of US$1,622 million at the end of 1983, will not be allowed to fall below the level of US$1,500 million at the end of June 1984 and shall increase to at least US$1,800 million by the end of September 1984, and to at least US$2,122 million by the end of December 1984.

2. Convertible external reserves are defined in the following way:

	(In millions of U.S. dollars; end-December 1983)
National Bank of Yugoslavia	
Reserve position in the Fund	55.0
Holdings of SDRs	--
Gold 1/	78.4
Securities	60.7
Foreign exchange	860.5
Total	1,054.6
Foreign assets of commercial banks	567.0
Total foreign reserves of the banking system	1,621.6

1/ Valued at US$42.22 per ounce.

3. For the purpose of the calculation of foreign reserves in 1984, any net increase in short-term debt of the banking system during the period December 31, 1983 to the date in question will be excluded. Short-term debt of the banking system is defined as the sum of short-term debt of the NBY, which amounted to US$176 million on December 31, 1983, and short-term debt of the commercial banks, which amounted to US$964 million on December 31, 1983.

FOR AGENDA

EBS/84/65

CONFIDENTIAL

March 23, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Yugoslavia - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a request from Yugoslavia for a stand-by arrangement equivalent to SDR 370 million. A draft decision appears on page 22.

This subject has been tentatively scheduled for discussion on Friday, April 20, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. L. Hansen (ext. (5)8872) or Mr. W. Lewis (ext. (5)8863).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

YUGOSLAVIA

Request for Stand-By Arrangement

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

(In consultation with other Departments)
Approved by L. A. Whittome and Subimal Mookerjee

March 22, 1984

I. Contents

Contents

II. Introduction

Discussions on a proposed use of Fund resources were held in Belgrade, during the periods December 5-16, 1983, January 5-17, 1984, and February 16 to March 2, 1984 by a staff team comprising Messrs. Hans Schmitt (Head), Leif Hansen, Wayne Lewis (all EUR), and Arne B. Petersen (ETR), and as secretaries Miss Joanna S. Smith (ADM) in December 1983, Ms. Shiela Wright (TRE) in January 1984, and Miss Mair Owen (TRE) in February 1984. 1/ The mission met with Messrs. Dragan, Srebrič, and

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1/ Mr. P. Mentré (EUR) joined the missions for part of the period and Mr. L. A. Whittome (EUR) paid a brief visit during the January 1984 mission. The staff team, with Miss Constance Strayer (EUR) as secretary, had also held preliminary discussions on the program from October 20 to November 2, in connection with the quarterly staff visit under the preceding stand-by arrangement.

Suković, Vice Presidents of the Federal Executive Council; Mr. Klemenčić, Federal Secretary for Finance; Messrs. Smole and Reljić, members of the Federal Executive Council; Messrs. Makić and Veljković, Governor and Deputy Governor, respectively, of the National Bank of Yugoslavia; and other officials. Mr. Polak visited Yugoslavia from January 31 to February 2, 1984. The Managing Director also met with Mr. Dragan in Washington on January 31, and Mr. Dragan met with the staff on February 2, 1984.

A three-year stand-by arrangement for Yugoslavia in an amount equivalent to SDR 1,662 million or 400 percent of the quota then in effect (271 percent of the present quota) was approved by the Executive Board on January 30, 1981 (EBS/81/5, 1/15/81 and Supplement 2, 2/2/81). The mid-year review of the program for the third year was completed at EBM/83/113 (7/28/83) on the basis of EBS/83/141 (7/8/83). With the last purchase on November 18, 1983, Yugoslavia purchased the full amount available under the stand-by arrangement. At the end of February 1984 outstanding purchases from the Fund, excluding CFF purchases, amounted to SDR 1,854.0 million, or 302.5 percent of quota.

In the attached letter from the Federal Secretary for Finance and the Governor of the National Bank of Yugoslavia to the Managing Director dated March 20, 1984, Yugoslavia requests a one-year stand-by arrangement in an amount equivalent to SDR 370 million (60 percent of quota). It is proposed that purchases be made available in four tranches, one of SDR 100 million in May 1984, and the three remaining of SDR 90 million each in August 1984, December 1984, and April 1985. The proposed arrangement would be financed by SDR 185 million from ordinary resources and SDR 185 million from borrowed resources. Assuming that repurchases are effected on schedule, the outstanding purchases would be as shown in Appendix II, Table 1. A waiver of the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement will be required.

III. Economic Background

In the wake of the second oil price hike, the external current account deficit of Yugoslavia in 1979 reached US$3,660 million. The deficit with the convertible currency area alone came to US$3,300 million or 5 1/2 percent of gross social product (GSP). External debt in convertible currencies rose from less than US$10.5 billion at the end of 1978 to more than US$18 billion by the end of 1981. A first adjustment effort during 1980 was replaced in 1981 by a stabilization program supported by a three-year stand-by arrangement with the Fund. 1/ By 1982 the overall current account deficit had shrunk to US$620 million. However, the deficit with the convertible currency area still amounted to US$1,600 million or 2 1/2 percent of GSP, and pressure on the capital account intensified in 1982, so that international reserves fell to a bare minimum (Table 18).

1/ Table 1 and Chart 1 review the economic performance under the 1981-83 stand-by arrangement.

The stabilization program for 1983, as drawn up at the beginning of that year, sought a further reduction in the current account deficit with the convertible currency area to US$500 million; the surplus with the nonconvertible currency area was to be eliminated at the same time. The program was supported by special assistance from governments and banks, and with this support it was hoped that international reserves would rise by US$630 million to US$2,300 million or 12 percent of total imports of goods and services by the end of the year. The program relied mainly on an active policy of exchange rate depreciation, and on a restrictive demand management policy that was further intensified at midyear.

1. The adjustment process

The current account objective in 1983 was more than achieved. The balance with the convertible currency area swung from a deficit in 1982 of US$1,600 million, to a surplus in 1983 of US$300 million (Table 14), while the surplus with the nonconvertible area changed from US$980 million to near balance (Table 15). The combined balance on current account accordingly moved from a deficit of US$620 million to a surplus of US$270 million (Table 13). A large part of the improvement in the convertible balance may be traced to the active exchange rate policy which reduced the exchange value of the dinar by about 25 percent in real terms in the course of the year, and to a progressively tighter restriction of demand, but nonmarket restraints certainly also played a significant part.

Merchandise exports to the convertible currency area rose by 14 percent in volume in 1983, more rapidly than expected. Part of this performance represents a diversion of exports from the nonconvertible area which fell by 17 percent. Imports from the convertible currency area dropped by more than had originally been thought necessary or desirable--by 11 percent in real terms. The main reason seems to have been a scarcity of foreign exchange due to adverse capital flows. Part of this shortfall was offset by imports from the nonconvertible area, which rose by 9 percent. Overall, merchandise imports declined by 5 percent. The balance on invisibles in convertible currencies was slightly better than expected.

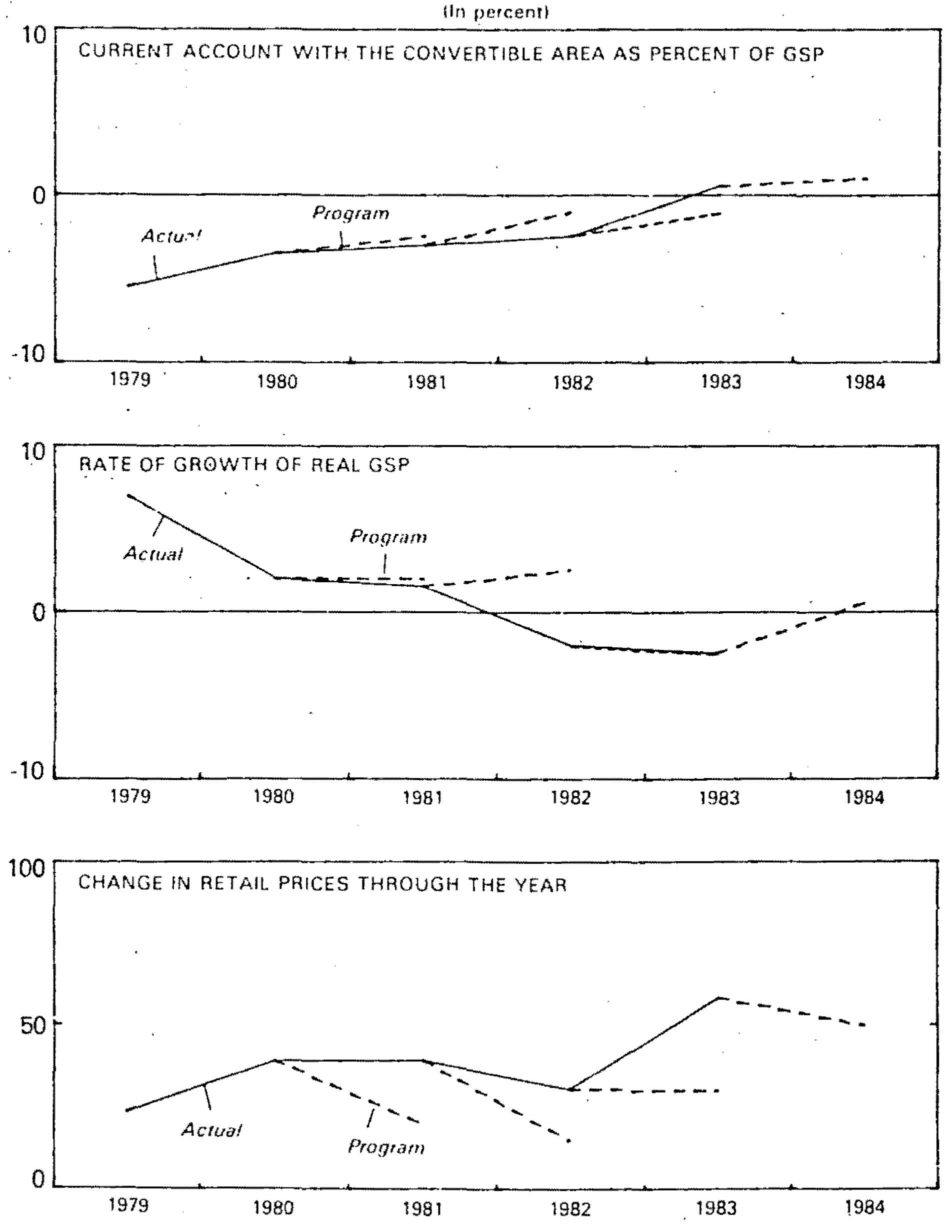
The depreciation of the exchange rate raised export unit values in dinar terms by 100 percent during 1983, compared with 55 percent the year before (Chart 2). Domestic prices followed with a lag. The increase in the retail price index was 58 percent through the year, and 80 percent at an annual rate over the last half of 1983, following the lifting of a price freeze imposed 12 months before (Table 3). The increase in producer prices reached 39 percent in the 12 months to October 1983, and was followed closely by increases in unit labor costs which rose at about the same rate over the period, leaving profit margins broadly unchanged for suppliers of domestic markets while those on exports rose (Chart 3). The acceleration of inflation after midyear led to the reimposition of a price freeze at the end of 1983.

CHART 1

YUGOSLAVIA

PERFORMANCE UNDER THE 1981-83 STAND-BY ARRANGEMENT AND PROPOSED PROGRAM FOR 1984

(In percent)



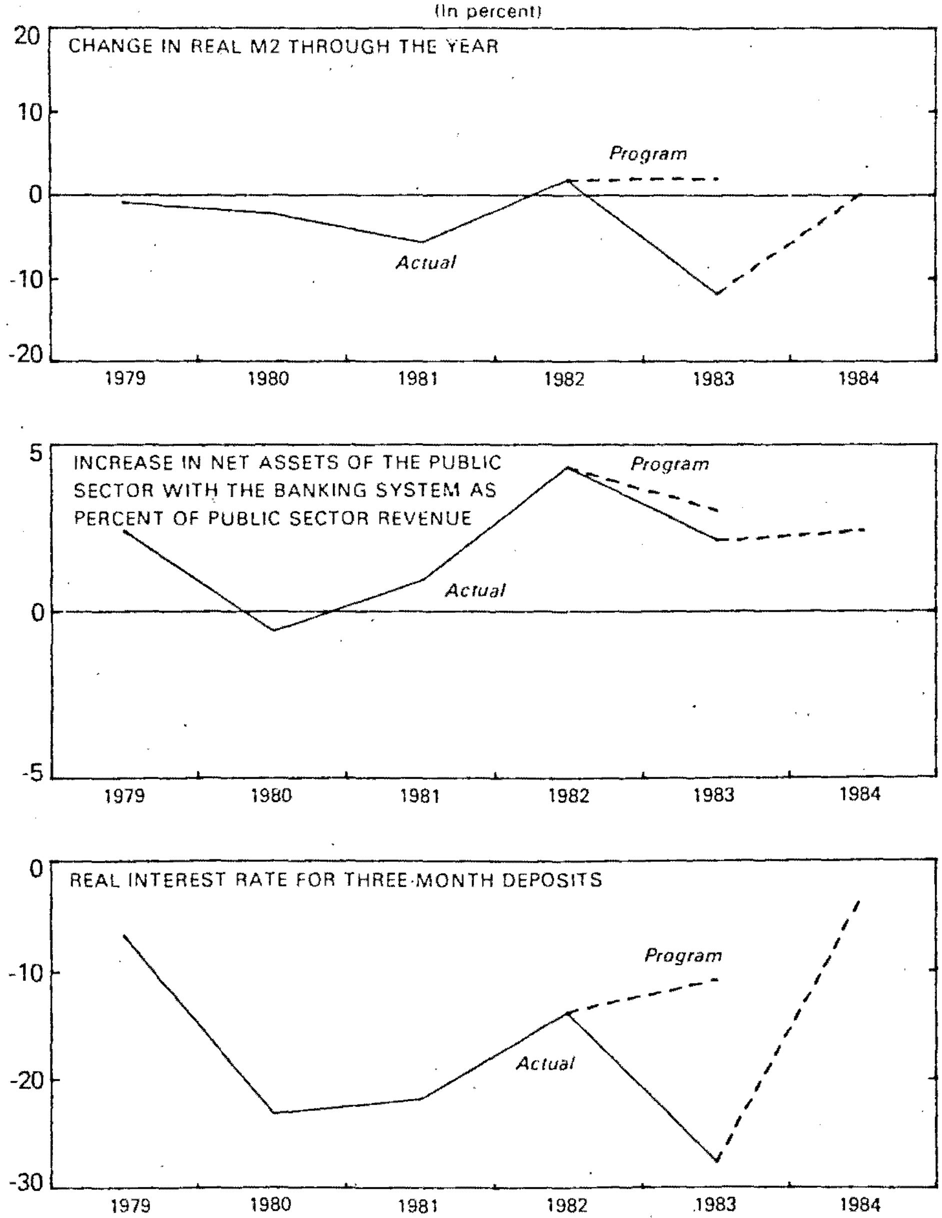
Sources: Yugoslav authorities, and IMF staff.

CHART 1 (continued)

YUGOSLAVIA

PERFORMANCE UNDER THE 1981-83 STAND-BY ARRANGEMENT AND PROPOSED PROGRAM FOR 1984

(In percent)



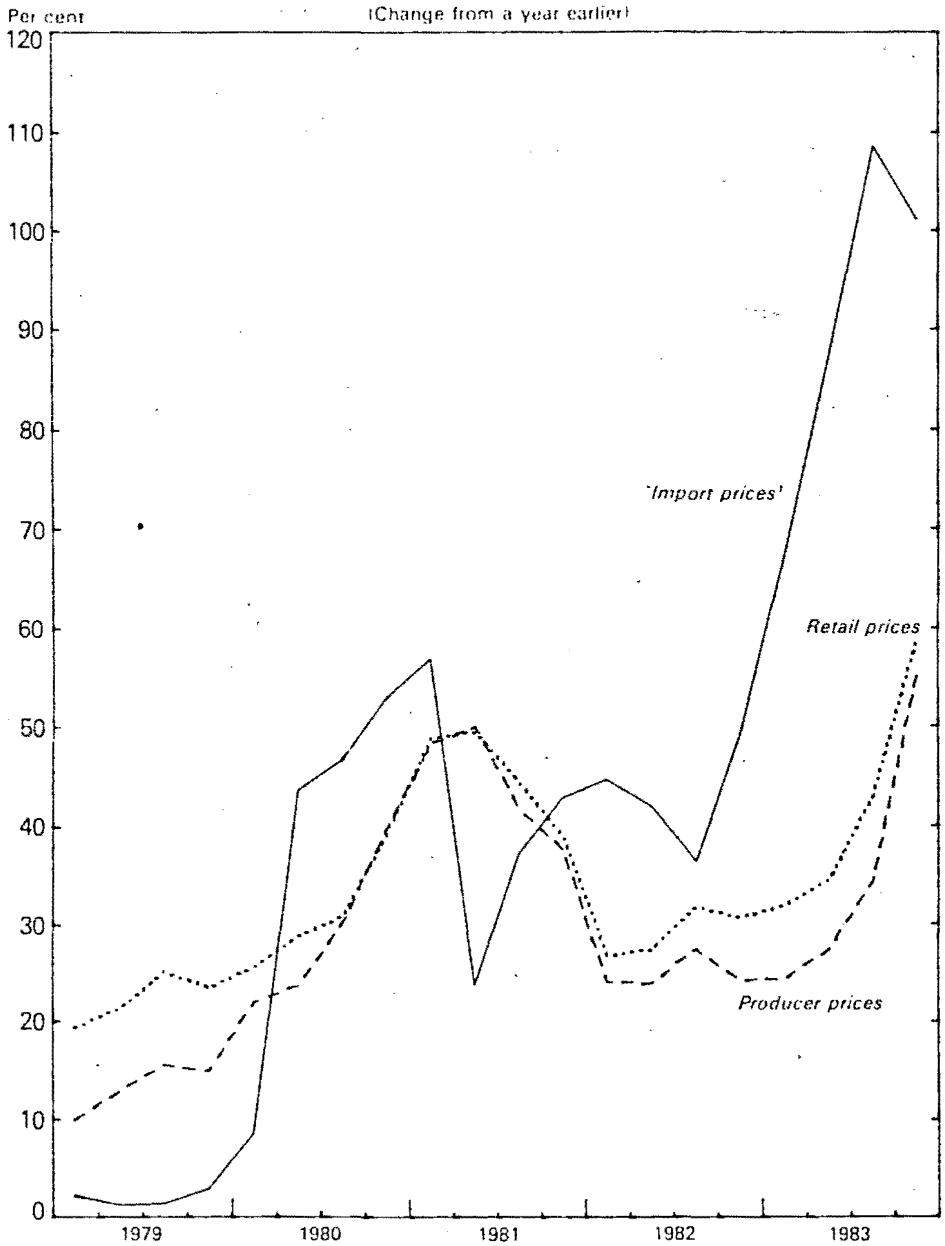
Sources: Yugoslav authorities; and IMF staff

CHART 2

YUGOSLAVIA

IMPORT PRICES AND DOMESTIC PRICES

(Change from a year earlier)



Sources: Yugoslav authorities and IMF staff.

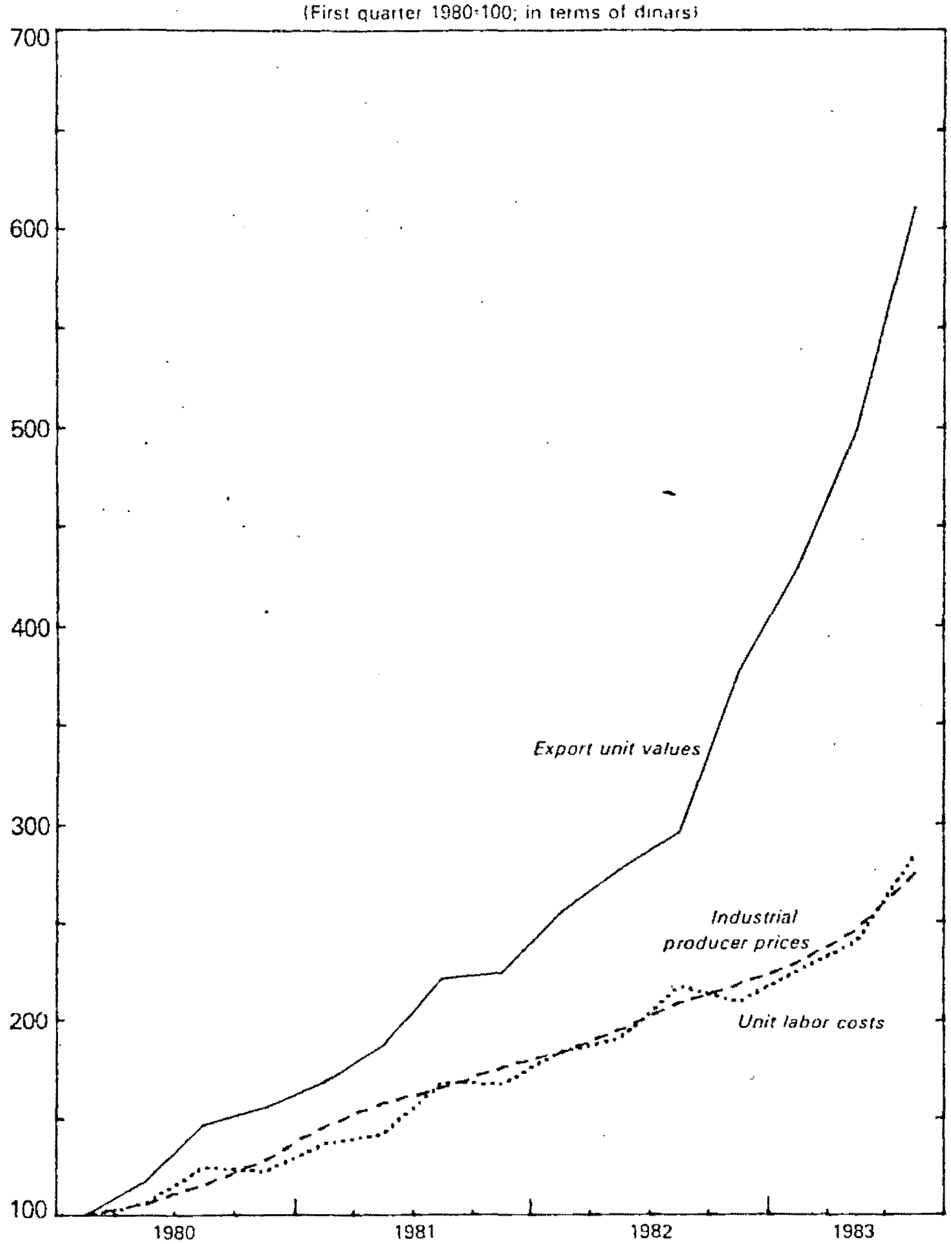
[1] Change in exchange rate for the dinar (dinars per U.S. dollar).

CHART 3

YUGOSLAVIA

SELECTED INDICES

(First quarter 1980=100; in terms of dinars)



Sources: Yugoslav authorities, and IMF staff.

Monetary conditions in Yugoslavia were tighter in 1983 than had originally been intended. In real terms broad money (M2) shrank by 12 percent, compared with the 2 percent increase initially foreseen on the basis of lower inflation forecasts (Chart 1). A large part of the growth in the money stock was due to valuation changes on foreign currency deposits, which accounted for 43 percent of M2 at the end of 1983 compared with 31 percent a year earlier. Total domestic credit declined by 17 percent in real terms compared with 6 percent the year before; the public sector continued to run a modest surplus in its accounts. A considerable part of credit expansion was again accounted for by valuation changes on credits denominated in foreign currencies, which accounted for 21 percent of the stock compared with 12 percent the previous year.

The decline in GSP was limited to 2 1/2 percent in 1983 despite the much larger drop in the real money stock (Table 2). The velocity of circulation rose rapidly since real interest rates, which had recovered somewhat in 1982, fell back again as price inflation accelerated. The index of industrial production still rose by 1.0 percent during the year, and by 1.3 percent on average over the year before, despite a further decline in imports. The relative buoyancy of output might have been achieved by a shift in its composition to sectors importing less and exporting more, but this was not the case (Chart 4). There has been as yet very little correlation between growth performance and international competitiveness among industries. Unless some imports went unrecorded, therefore, imports must have been reduced across all sectors.

Total domestic demand declined by 3 1/2 percent in 1983, thus freeing resources for external adjustment (Table 2). The drop in real interest rates encouraged inventory accumulation despite the scarcity of imports. But final domestic demand fell by more than 5 percent, primarily due to a further decline in gross fixed investment which exceeded 12 percent, making 1983 the fourth consecutive year in which investment has fallen. As yet, therefore, the profits that some sectors were generating in consequence of exchange rate depreciation were not all being channeled into fixed investments. To a large extent they seem to have gone into inventories, into subsidies to loss-making enterprises, and into holdings abroad.

Private consumption fell by nearly 2 percent in 1983, considerably less than might have been expected, given a 10 percent drop in real wages in the socialized sector and a fall in real wages of 25 percent over the last four years (Table 4). As already noted, income payments in the socialized sector rose so that unit labor costs would rise with producer prices. But retail prices were increasing faster, reflecting the increasing cost of imports, and thus cut into the purchasing power of workers. At the same time, however, nonwage incomes, comprising more than 40 percent of household incomes, continued to be buoyant in 1983, and the savings ratio fell. Public consumption also declined in reflection of efforts to reduce the size of the public sector in the economy (Tables 5-7).

2. External financing

The improvement in the external current account in 1983 was wholly offset by a sharp deterioration on capital account. To be sure, at a meeting in Berne in January 1983, representatives of 15 friendly governments had pledged US$1,300 million in financial support to Yugoslavia, the bulk of it in the form of supplier credits. In addition, commercial banks had agreed to provide US$600 million in new medium-term credits, and to refinance US$950 million of nonguaranteed medium- and long-term credit falling due between January 17, 1983 and the end of the year, as well as to roll over an estimated US$800 million of short-term credit to January 17, 1985. The package of financial assistance also included a structural adjustment loan (SAL) as well as project loans from the World Bank, and drawings on the Fund. 1/

In the event, disbursements under the Berne package proved to be disappointingly slow. Only US$800 million of the US$1,300 million was disbursed by the end of the year. This was partly due to delays in signing individual agreements because of the need to agree on the commodities to be covered. However, disbursements under the Berne package were also hampered by restrictive regulations governing the utilization of credits in Yugoslavia, which also limited drawings under the SAL. The first advance under the commercial bank package was made only in late October, though the whole of it was disbursed by early December. More seriously, there were short-term capital outflows through the banking system amounting to US$670 million, which had not been allowed for in the initial projections.

The most disquieting development was the swing in other capital flows and errors and omissions from a positive balance of US$660 million in 1982 to a deficit of US$1,230 million in 1983 (Table 14). The swing on this item alone undid almost the whole of the recorded improvement on current account. Some underreporting of imports appears to have taken place in view of the continued buoyancy of industrial production, but this could not account for the whole of the capital account deficit. The increasingly negative real interest rates provided a strong incentive for capital outflows, as they also did for inventory accumulation and for reduced holdings of cash balances in relation to income. The lengthening of the repatriation period for export receipts from 60 to 90 days during 1983 played a facilitating role.

3. Performance under the stand-by arrangement

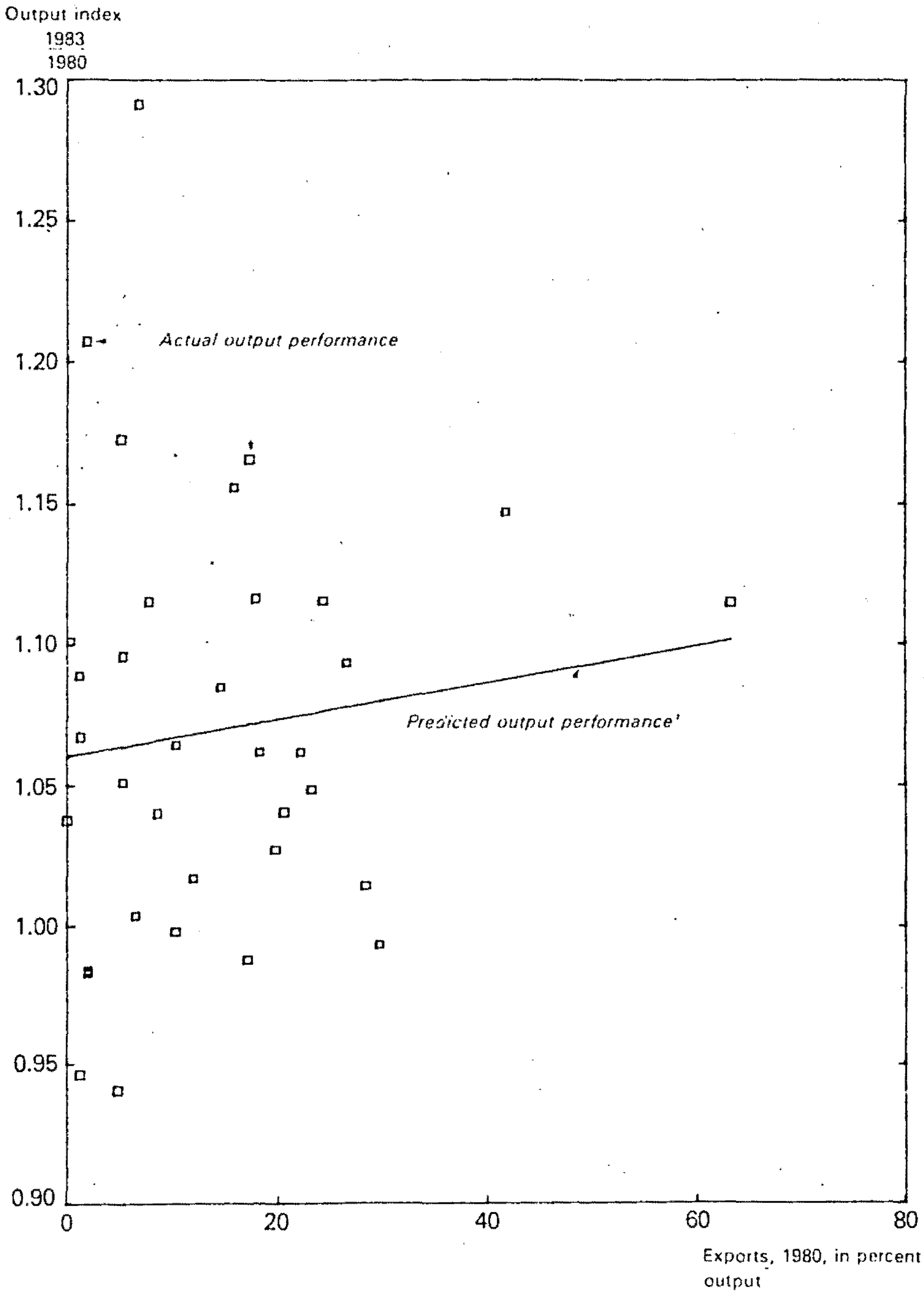
The performance criteria under the stand-by arrangement for 1983, and the record of compliance with them, are presented in Table 11. They comprised (i) monthly changes in exchange rates to reach a 30 percent real effective depreciation during the year; (ii) quarterly limits on the net domestic assets of the banking system, and on central bank credit to the Federal Government, (iii) limits on the year-on-year increase in public

1/ A short-term credit from the BIS was drawn and repaid during the year.

CHART 4

YUGOSLAVIA

ACTUAL AND PREDICTED OUTPUT PERFORMANCE BY INDUSTRIAL BRANCH, IN RELATION TO INDICATOR OF COMPARATIVE ADVANTAGE



Sources: Federal Statistical Office, *Indeks*, and data provided by the Yugoslav authorities.

[1] Equal to 1.060 + 0.000653 (Exports output in 1980, in percent).

sector revenue in one month out of each quarter; (iv) limits on the contracting of new foreign loans during 1983; and (v) the standard clause on trade and payments restrictions. All of these were met by the test dates of September 30, and October 31, 1983, on which the last purchase was predicated, except that a waiver relating to external arrears was in effect until November 15, 1983, because of the delay in disbursing the new credit from the commercial banks.

There was also a series of understandings to (i) restrain the growth in nominal personal income per employee within a certain limit by the fourth quarter of the year; (ii) to increase interest rates on deposits with commercial banks by specified amounts before the end of the year; (iii) to increase the National Bank's rediscount rate as well as the rates charged on selective credits by a certain amount; (iv) to deposit certain amounts of excess public sector revenue in blocked accounts with the National Bank; and (v) to reduce interenterprise credits by a specified amount. Apart from (iii) none of these undertakings was fully met by the end of the year. Also, after the last purchase under the stand-by arrangement, the performance criteria on the exchange rate and on public sector revenues were not observed.

IV. The Proposed Program

Apart from safeguarding the momentum of improvement in the balance of current transactions, the program for 1984 places particular emphasis on measures to improve the balance on capital account. As last year, the objectives are set for the external balance with the convertible currency area alone, with an understanding as in 1983 that the current account with the nonconvertible area will be in approximate balance. It is recognized that some of the improvement in the current balance with the convertible currency area in 1983 was due to trade diversion from other regions, and to a compression of imports, neither of which can be expected to continue in 1984. Nevertheless, the underlying adjustment should permit a further improvement in 1984 to a surplus of at least US$500 million. A balanced capital account would then permit reserves to rise by a similar amount.

The program for 1984 has again to be seen as part of a longer-term adjustment process. Operating at normal capacity the economy a few years ago generated deficits on external current account that could not be financed on a sustainable basis. A return to capacity growth with external balance will require changes in the structure of production away from sectors that supply mainly domestic markets, to sectors that can supply external markets as well. It is recognized in Yugoslavia that such structural change entails significant, if temporary, inflationary pressures as prices in priority sectors rise relative to those elsewhere. It is also increasingly being recognized that many enterprises in the declining sectors must be scaled back or phased out as those in priority sectors expand. The program attempts to advance these processes at a sufficient but tolerable pace.

1. Price policy

Relative prices need to be flexible if they are to contribute to the adjustment process. To promote such flexibility, a 12-month effort to freeze prices was abandoned in late July 1983, and replaced by a system in which prices could be freely determined for about 45 percent of industrial output, while prices for another 45 percent were subject to approval by Communities for Prices at the federal and regional levels, and the remaining 10 percent subject to price ceilings set by the price authorities. The surge of inflation that followed is attributable in large measure to the release of pent-up inflationary pressures that were intensified by the active exchange rate policy. On top of these pressures, administered prices were increased sharply in late December, notably for the electric energy sector and the railways, which contributed to a 10 percent jump in the industrial producer price index that month. To prevent further large surges in prices, a new price freeze was imposed at the end of the year.

Following a cooling-off period this latest price freeze is to be lifted by May 1, 1984 and superseded by a system in which prices for some 55 percent of industrial output will be determined freely, leaving 35 percent to be approved by the relevant Communities for Prices and, as before, about 10 percent subject to direct price control. Inevitably, the lifting of the freeze will again bring inflationary pressures into the open. However, key administered prices are now to be adjusted more frequently and gradually so as to avoid the kind of shocks that proved destabilizing last December. In particular, both railway and electricity tariffs are to be monitored to ensure that they at least keep pace with increases in producer prices generally. Also, prices of natural gas, oil and oil derivatives will be adjusted periodically in the course of the year, to keep them in line with changes in the dinar exchange rate of the dollar.

2. Incomes policy

Both to restrain inflation and to encourage a restructuring of the economy, some form of wage restraint will continue to be required. The authorities undertook in 1983 to limit the growth in nominal income payments per employee to 22 percent on average over the previous year. However, the courts ruled that restrictions on the proportion of net enterprise income that could be distributed as personal income to employees were unconstitutional. A social compact consistent with this ruling is in the process of being worked out among the government authorities, the Chamber of the Economy, and the trade unions. Meanwhile, the basis for calculating the enterprise income available for personal income payments was changed to the amount actually earned in the preceding period, rather than the income expected to be earned in the period ahead.

To encourage the transfer of labor from declining to expanding sectors in the economy, limits will be placed on the payment of personal incomes to employees by enterprises whose financial accounts show them to have made losses in 1983. Only the basic work units within each enterprise that have contributed to the losses of that enterprise will be affected by this limitation; those work units that did not themselves run losses are constitutionally immune from this sanction. The affected work units are required to limit the percentage growth in their total nominal income payments in 1984 to two thirds of the percentage growth in such income payments in the socialized sector as a whole, in the republic or province in which they are domiciled. Enterprises in a limited number of industries, mainly those subject to direct price controls, are exempt from this ruling.

A similar limitation has been imposed on enterprises that fail to meet their obligations to creditors when due, except that for these enterprises the permissible growth of personal income payments is fixed at one half the growth of personal income in the relevant region's socialized sector, and is calculated on a per employee basis rather than in the aggregate. This limitation is intended not so much to encourage intersectoral labor mobility, since the enterprises affected would in most cases restore back pay once they have cleared up their arrears, but rather to encourage financial discipline and a timely repatriation of foreign exchange earnings. A more stringent measure incorporated into legislation in July 1983 was to have been implemented from January 1984, but was left in abeyance as excessively harsh, inasmuch as it would have limited nominal income payments to no more than the average in the preceding year.

By restricting personal income payments in this way, the need for subsidies to declining enterprises will also be reduced. A significant part of the subsidies that supported such enterprises in the past have been channeled through Joint Reserve Funds at the communal and republican levels, none of which are considered part of the public sector. The annual contributions into these reserve funds in 1984 were assessed before new measures could be introduced. The growth in payments from these funds, including loans as well as grants, will therefore be limited during 1984 to one half the percentage increase in the retail price index in each quarter compared with a year earlier. Greater selectivity will be required in the choice of enterprises to be supported, in order to accelerate structural change.

3. Fiscal policy

The public sector will continue to contribute to the adjustment process by further reductions in revenue and expenditure in real terms. In 1983 an effort was made to place a nominal limit on the increase in public sector revenue, but because of a much higher-than-expected rate of inflation toward the end of the year, this proved infeasible. For 1984, the increase in revenue for general and collective consumption of the republics and provinces is to be limited to 75 percent of the rise in total income of the socialized sector on a cumulative quarterly basis, except for the first quarter in which revenues are not to exceed their nominal level in the last quarter of 1983. After including certain revenues which are to be exempt from this provision, particularly those of the Federal Government, the increase for the public sector as a whole is not to exceed 85 percent of the increase in retail prices, and will be monitored in that way.

To ensure that expenditures decline in real terms along with revenues, the public sector will be required to run a financial surplus in 1984 as in 1983. The accumulation of the public sector's net claims on the banking system will permit a larger expansion of credit to the productive sector within a given overall credit ceiling. The increase in the public sector's net assets with the banking system in 1983 was due in part to the requirement that excess revenue should be deposited in the blocked accounts set up under last year's stand-by arrangement. The same effect is to be achieved more simply in 1984 by setting minimum levels for the public sector's net assets with the banking system during the year. The amount of the increase in 1984, at Din 40 billion, is comparable to the 1983 performance in relation to public sector revenue as presently forecast.

Expenditure restraints will be concentrated on the payments of subsidies, particularly on those paid to exporters through the Community of Interest for Foreign Economic Relations. Of these, customs duty drawbacks and payments to agriculture will be maintained at present rates. However, rebates for taxes and contributions out of personal and enterprise incomes, already halved in February, will be abolished altogether at the end of September 1984 along with gasoline coupons for tourists. Rebates on transportation costs will be halved also at the end of September, and subsidies for advertising abroad will be halved by the close of the year. As the same proportion of customs duties will be credited to this Community as before, a surplus will accumulate to help raise the net asset position of the public sector with the banks.

4. Credit policy

Monetary policy was restrictive in 1983. The unanticipated rise in inflation, which became pronounced in the second half of 1983, caused the ceilings on net domestic assets (NDA) of the banking system to be even more restrictive than expected, despite the exclusion from those ceilings of valuation changes on their foreign currency components. Although the limits on NDA were even then observed with a margin to spare, the nominal growth of M2 during 1983 was 37 percent or 5 percentage points higher than had been forecast, mainly because of smaller increases in net foreign liabilities and larger increases in the foreign exchange component of M2 than had been assumed in the program (Tables 8 and 11). Even excluding the effects of exchange rate changes, the 12 percent growth of M2 was 2 percentage points more than projected. In real terms, nevertheless, the stock of M2 declined by 12 percent instead of rising by 2 percent as had been intended.

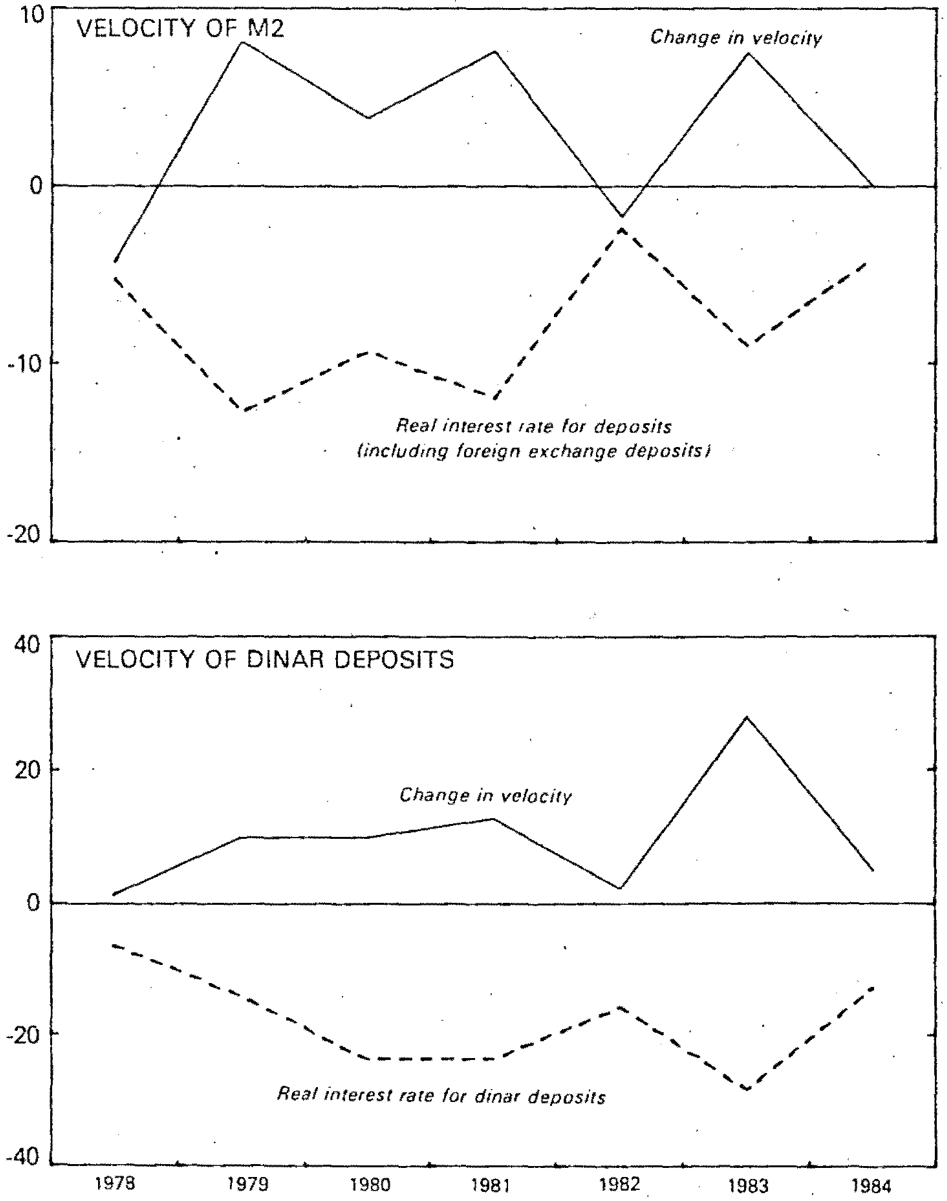
Net of the effects of exchange rate changes, the growth of NDA will be limited to 17 percent in 1984 compared with 11 percent in 1983, to take account of the expected higher rate of price inflation once the price freeze is lifted, and of changes in the velocity of circulation of money once real interest rates rise. Chart 5 shows the velocity of M2 unadjusted for valuation changes; the depreciation of the nominal exchange rate is therefore automatically reflected in both the average yield on

CHART 5

YUGOSLAVIA

VELOCITY OF M2 AND DINAR DEPOSITS

(In percent)



Sources: Yugoslav authorities, and IMF staff.

foreign currency deposits and in their velocity. However, a similarly systematic relationship can be observed between the change in velocity and the real interest rate on the dinar component of M2 alone. Excluding the effects of exchange rate changes, the stock of M2 is programmed to increase by 23 percent during 1984 (Table 9). Including those effects, M2 would grow by about 50 percent, assuming a 50 percent rate of inflation, or in real terms remain broadly constant through the year.

5. Interest rates

Interest rates on bank deposits and on credits by the National Bank of Yugoslavia were raised by up to 8 percentage points in early 1983, in an effort to bring interest rates closer to positive levels in real terms. National Bank interest rates were raised once more by 8-10 percentage points in July bringing the discount rate to 30 percent (Table 10). At that time the authorities intended that deposit rates should be raised an additional 2-7 percentage points by the end of the year, to bring the rates on three-year household deposits to 30 percent, and one-year deposits to 24 percent. However, when the price freeze was imposed at the end of the year, these changes were postponed.

The massive outflow of short-term capital in 1983 lent a heightened sense of urgency to the need for positive real interest rates. The rise in the rate of inflation to exceptionally high levels in late 1983, and its increased volatility, have at the same time made forecasts of price increases unusually difficult to make. Accordingly, the Yugoslav authorities have decided to define the target rate of interest with reference to the actual rate of inflation at various intervals. Interest rates on dinar deposits of varying maturities will be adjusted to this target according to a fixed schedule. The first step on May 1, 1984 will close 40 percent of the gap between the end-1983 rate and the target rate on three-month deposits of households. In nominal terms the increase will be from 12 percent to about 30 percent. At the same time, three-month deposits will also be available to enterprises at the same interest rate that applies for households. The remaining gap of 60 percent will be closed in four equal steps of 15 percent each on July 1 and October 1, 1984, and on January 1 and April 1, 1985 (Chart 6). The discount rate and other lending rates of the National Bank of Yugoslavia will be adjusted commensurately.

These interest rate increases should not only exert a positive influence on the capital account of the balance of payments, and encourage a more efficient allocation of resources among depositors and borrowers; they should also help to make conventional credit policy more effective, as the composition of M2 may be expected to shift, with the foreign currency component declining as the dinar component rises.

6. Exchange rate policy

An active exchange rate policy was a central element in the adjustment strategy last year. It made room for the price increases needed to induce a sustained expansion of export production, and it encouraged import substitution based on a realistic assessment of the cost of foreign exchange. Also, the progress made in moving closer to a market-clearing dinar exchange rate has generally diminished the distortions caused by a fragmented foreign exchange market. During the first 11 months of 1983, the dinar depreciated by about 47 percent in nominal effective terms and by 28 percent in real effective terms, as measured by relative producer prices (Chart 7). However, in December 1983 both the real depreciation agreed upon under the previous stand-by arrangement and the correction for inflation differentials were omitted, and the nominal effective exchange rate was kept stable in January and February 1984 as well. As a consequence, by the end of February, the real effective exchange rate was estimated to be only 15 percent lower than at the beginning of 1983.

To recapture a degree of competitiveness adequate to support their external objectives, the Yugoslav authorities have decided to restore the real depreciation since the beginning of 1983 to close to 25 percent in two steps, one by April 30, 1984 and the other by June 30, 1984. Thereafter they will hold the real rate constant by monthly exchange rate changes sufficient to equalize inflation rates at home and abroad, as measured by producer prices.

7. Foreign exchange system

Amendments to the foreign exchange law in January 1983 replaced the regional approach to foreign exchange allocation with a sectoral approach, provided for limited surrender requirements of foreign exchange proceeds to a unified foreign exchange market, and granted a larger role to the banking system in assessing the economic soundness of foreign borrowing transactions. 1/ As implemented, however, the system retained a strong link between export earnings and the allocation of foreign exchange for imports, with the result that the system remained fragmented and insufficiently flexible to insure an efficient allocation of scarce foreign exchange. There was virtually no scope for a unified foreign exchange market.

Further modifications in the application of the foreign exchange law were introduced early in 1984. Some 54 percent of the foreign exchange earnings of exporters of goods and nonfactor services are now to be channeled through the National Bank of Yugoslavia to cover specified payments needs. The remaining 46 percent is divided in two parts. An exporter is entitled to keep one part for recognized foreign exchange needs. The second part, the residual, is to be sold to the unified market. It is not clear at this time to what extent these provisions will allow a unified foreign exchange market to emerge. The Yugoslav authorities are undertaking a review of the operation of the system, to be completed by midyear. They have also agreed to a separate study by the Fund staff; the staff will be assisted in this study by expert consultants from both inside and outside Yugoslavia, including representatives of the

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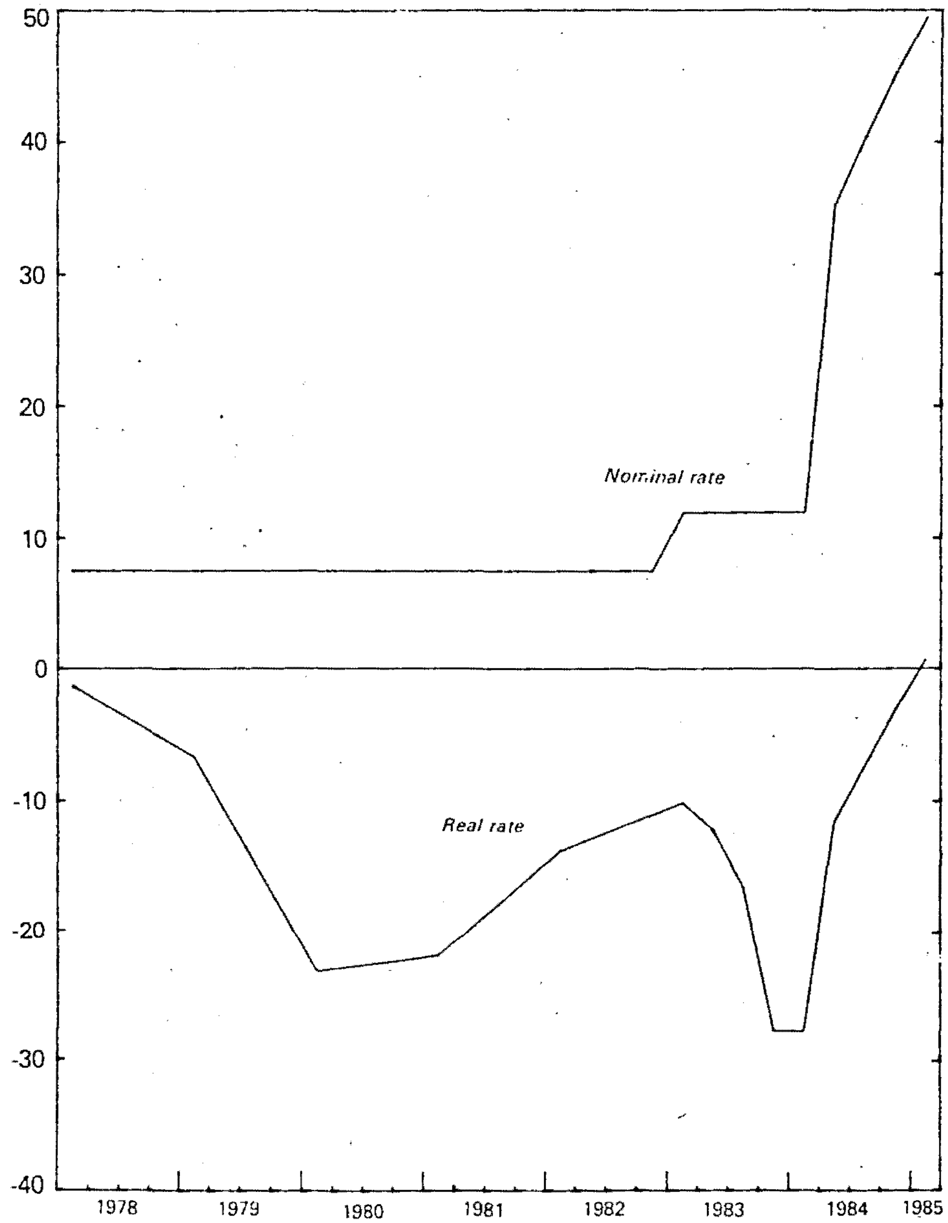
1/ The amendments are described in detail in EBS/83/141 (7/8/83), Annex III.

CHART 6

YUGOSLAVIA

INTEREST RATES FOR THREE-MONTH DEPOSITS

(In percent)



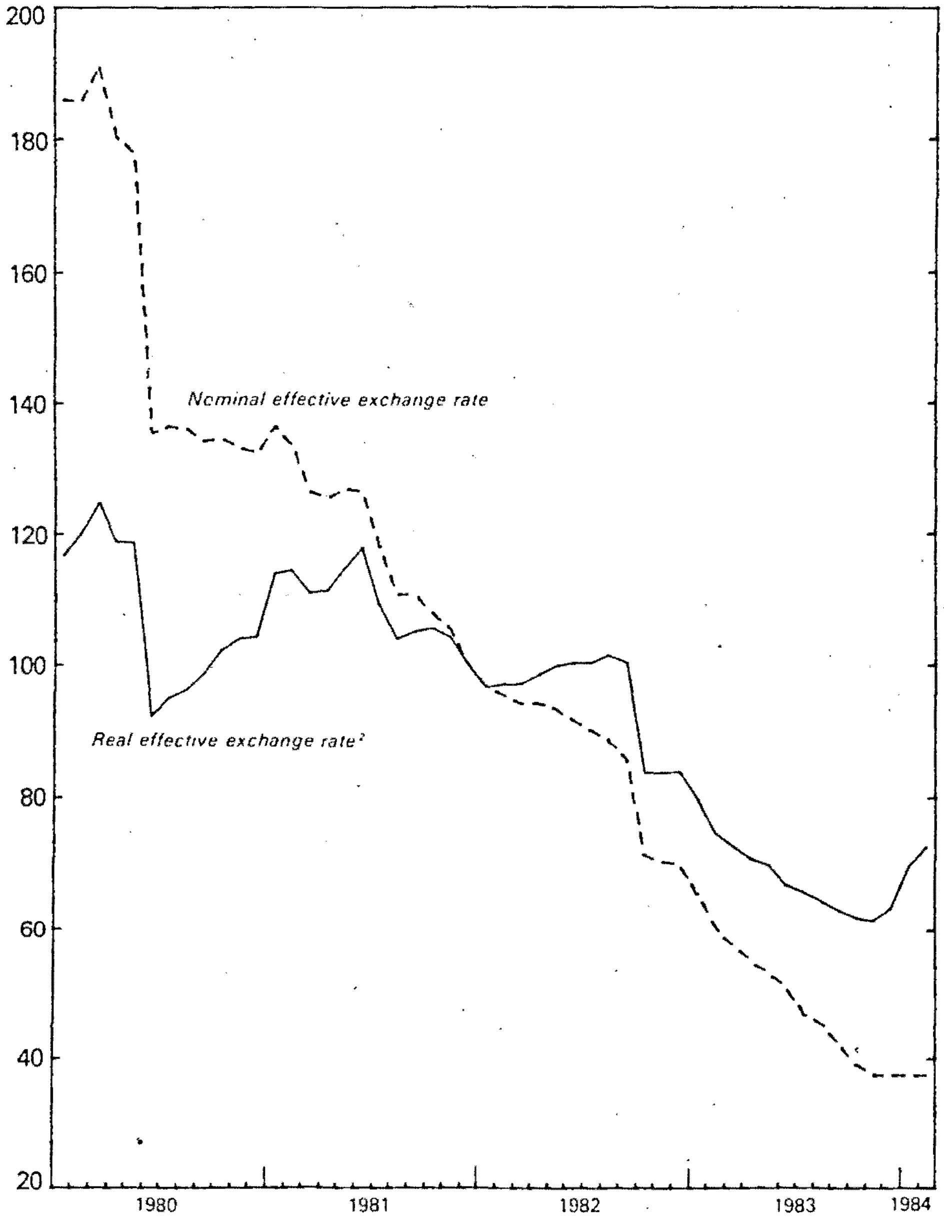
Sources: Yugoslav authorities and IMF staff.

CHART 7

YUGOSLAVIA

EFFECTIVE EXCHANGE RATE OF THE DINAR[1]

(End of December 1982=100)



Sources: IMF, *International Financial Statistics*, and data provided by the Yugoslav authorities.
[1] Effective exchange rate indices are based on the Yugoslav currency basket utilized in 1982-83.
[2] Relative producer prices adjusted for exchange rate changes.

World Bank and of the private banking sector. The recommendations put forward in these studies will be discussed with the staff and considered by the Fund in the course of the midterm review of the program which is to take place no later than November 1984.

The Yugoslav authorities remain committed to a liberalization of exchange and trade policies once the present foreign exchange shortages have been overcome. Yugoslavia maintains a restriction under Article VIII relating to the availability of foreign exchange for travel. The export or import of dinars is limited to Din 1,500 per person for the first trip, and Din 200 for each subsequent trip during the year. This restriction has been approved by the Fund's Executive Board until the end of October 1984, or the next Article IV consultation, whichever comes earlier. The authorities are committed to avoiding any new restrictions on payments and transfers for any current international transactions. They are also committed to preventing the re-emergence of external payments arrears.

8. Reserves and external debt management

An increase in external reserves of US$500 million is a primary objective of the stabilization program in 1984. The level of external reserves needs to be built up for two reasons. First, there is a need to accumulate reserves in anticipation of the seasonal drain on the reserves at the beginning of the following year; there is the additional necessity of paying back short-term debt which has been rolled over until then. Second, external reserves need to be built up in order to support a return to normal capital flows. Accordingly, an external reserve target phased through the year has been made a performance criterion in the proposed stand-by program.

Another performance criterion will monitor recourse to external borrowing to meet the reserve target; the growth of foreign indebtedness is to be tightly controlled in the year ahead. Disbursements on loans with maturities of at least one and up to twelve years will be limited to a maximum of US$3.5 billion, of which no more than US$1.8 billion in loans are to have maturities of less than five years. Net drawings on credit with a maturity of less than one year will be limited to US$0.5 billion in 1984. The limits on all maturities include loans contracted by commercial banks and loans contracted directly or guaranteed by the National Bank of Yugoslavia or any other public sector entity, and also include the refinancing of 1984 maturities under multilateral exercises.

V. Economic Prospects

The Yugoslav authorities expect by these various means to reach, and hope to exceed, their external current account objectives and also to improve their performance on capital account. It should be possible in their view to achieve a surplus on current account with the convertible area of US$800 million rather than the US$500 million to which they are committed, and to accumulate international reserves of US$1,000 million rather than the US$500 million that they have pledged. They base these expectations on more ambitious growth targets for exports than those underlying the proposed stand-by arrangement. They regard the larger improvement in the external balance to be consistent with a growth of GSP of 2 percent. At the same time they expect that inflation should come down from nearly 60 to perhaps 40 percent.

The Yugoslav authorities intend that the current account position with the nonconvertible area should be in balance, though a smaller decline in net service receipts than projected could turn the balance from a small deficit in 1983 to a small surplus of perhaps US$50 million in 1984. Exports to the nonconvertible area are projected to increase by some 6 percent in volume but are expected to remain below their 1982 level. Imports are projected to increase by only 1 percent as the authorities do not expect repeatedly to incur deficits on the current account under their bilateral agreements. Imports of crude oil from the nonconvertible area are expected to remain at the level of 5.5 million tons achieved in 1983, to avoid burdening the convertible account.

1. The adjustment process

Staff estimates of the balance of payments and growth prospects are more cautious than those of the Yugoslav authorities. It is clear, nevertheless, that the exchange rate policies pursued since late 1982 have on balance led to a substantial improvement in the competitive position of Yugoslav enterprise, and they should result in further significant increases in market shares in the convertible currency area. Combined with the projected growth in those markets of some 3 percent--there had been no growth at all in 1983--this prospect should enable Yugoslav exports to the convertible currency area to rise by some 9 percent in volume in 1984. This figure is 4 percentage points lower than in 1983, when the growth rate was influenced by a one-time shift in trade flows from the nonconvertible to the convertible currency area.

The staff forecast a slight increase in the surplus on invisible transactions in 1984, but there are some uncertainties concerning workers' remittances. The effect of the increase in real interest rates on dinar deposits may be offset in part by the requirement that, from January 1, 1984, interest on foreign currency deposits in Yugoslavia be paid to residents in dinars. Receipts from tourism should, on the other hand, increase substantially. The depreciation of the dinar has conferred a significant advantage on Yugoslav tourism, and the tourist areas were reportedly better supplied with gasoline in 1983 than before, so that confidence should by now have been rebuilt. Transportation services are likely to revert to their 1982 levels with the sharp recovery of exports, and the pickup in imports which it facilitates.

To achieve the export target it is essential that industrial production should pick up, with GSP rising by perhaps 1 percent. To this end the economy needs to be assured of an adequate supply of imported raw materials. Accordingly, the program provides for an increase of nearly

6 percent in the volume of imports from the convertible currency area, which have been reduced each year since 1979 and may have been depressed below sustainable levels because of a lack of foreign exchange. Increased interest rates should help to increase financial inflows to pay for imports; they should also improve the prospects for production by reducing the incentive to hold imports in inventories.

The rate of inflation rose markedly in the closing months of 1983 and is likely to remain high after the price freeze is lifted on May 1, 1984. The present program will help to moderate it in several ways. More realistic interest rates will reduce the incentives to hold goods in inventories and a reduced capital outflow will also help to finance an increased flow of imported goods to domestic markets. Then, the reduction of subsidies will speed up the shift of resources from declining to expanding industries and thus bring incomes more in line with productivity. Also, a less active exchange rate policy than in 1983 will reduce the cost push from this source. Nevertheless, a margin of corrective inflation is still to come through, which is likely to keep inflation closer to 50 percent than to 40 percent in through-the-year terms.

The growth in financial assets is expected to accommodate the necessary inflation with enough of a margin for some recovery of economic activity. The limit on net domestic assets is defined so as to allow the stock of real money to be broadly constant; as real interest rates begin to rise, the persistent rise in the velocity of circulation should abate, but still leave room for some real growth of output to resume. Domestic credit is expected to decline by 7 percent in real terms. Valuation changes on credit denominated in foreign currencies will take up part of the margin as before, further limiting the scope for domestic currency credit, which should fall by 15 percent in real terms.

Virtually all of the increase in output will go into improving the external balance in 1984; total domestic demand is expected to remain essentially unchanged. Inventory accumulation is expected to moderate in response to increases in real interest rates but may remain positive on average for the year as a whole. In response to public policy, final domestic demand is again likely to decline, though by less in 1984 than in any of the preceding three years. There should be some recovery of investment in the course of the year, particularly in export-oriented industries, but not by enough to keep the total from declining again, now for the fifth year in a row. Public consumption is to be cut back, probably by as much this year as last.

On balance there should be room for a modest increase in private consumption, but the figure is necessarily uncertain. The chance that inflation will be markedly higher than anticipated is probably less this year than last, and the likelihood that nominal incomes will fail to keep pace is therefore reduced. On the other hand, the likelihood of effective income restraints on loss-making enterprises is enhanced, partly through direct regulation and partly by the reduction in subsidies. Also, the sharp increases in prospect for interest rates may enhance the propensity of the general public to save, accumulating financial assets. Taking these factors together, some increase in private consumption is still the most likely outturn.

2. External financing

The Yugoslav authorities are committed not only to reaching a surplus of at least US$500 million on external current account, but also to accumulating an equivalent amount in their external reserves. Accordingly, all scheduled amortization payments and other financial outflows will have to be covered by rescheduling or new borrowing. Amortization payments due on medium- and long-term debt will amount to US$3,030 million in 1984. In addition, some US$200 million (net) in medium-term suppliers credits to finance Yugoslav exports of capital goods is likely to remain necessary and desirable. Although short-term capital outflows are to be sharply reduced, some US$250 million may still prove unavoidable. Total capital outflows may thus come to about US$3,480 million.

Although the gross borrowing requirement is substantially lower than it was in 1983--some US$3,490 million compared with US$4,250 million--it again cannot be met without special arrangements (Table 16). Accordingly, representatives of 16 governments agreed in principle on January 11, 1984 to refinance 100 percent, or some US$700 million, of amortization payments on medium- and long-term debt incurred before December 2, 1982 and due to or guaranteed by governments or official agencies. Interest payments on such debt are to be kept current. The governments also confirmed their willingness to continue disbursing under the 1983 package, and to provide normal funds or guarantees for such funds outside any official package. Available information suggests that those amounts could add to US$740 million, for a total of US$1,440 million from government sources.

Commercial banks agreed in December 1983 to a three-month standstill on medium- and long-term maturities falling due between January 1 and March 31, 1984, which is to be extended to the end of June 1984. They have agreed in principle to refinance 100 percent of perhaps US$1,100 million of nonguaranteed debt falling due in 1984, contingent on Board approval of the present program. They have, in addition, indicated that they are willing to consider cofinancing of projects with the IBRD or the EIB, as well as certain types of trade-related financing.

The IBRD expects to disburse the rest of the amount available under the SAL granted in 1983 (US$255 million), as well as some US$250 million under ordinary project loans. In addition, some US$50 million is expected to be disbursed from the IFC and other multilateral financial institutions.

Identified resources would thus be sufficient to ensure that the overall surplus in convertible currencies would be US$500 million, which, together with net drawings from the Fund during calendar year 1984, would lead to a buildup of convertible external reserves by the end of the year of US$510 million. The total would reach US$2,130 million or 12 percent of total import of goods and services. An additional purchase from the Fund would be made in 1985 under the program.

These identified financial flows should be viewed as the minimum required, and the foreign exchange position will remain very tight throughout 1984. They will in addition barely enable Yugoslavia to cover its payments needs in the first quarter of 1985 when, in addition to the normal seasonally high requirements, some US$800 million in short-term debt to banks falls due. Banks have indicated their willingness to discuss a solution to this problem, but in any event it would be desirable if the flows from banks and governments in 1984 were higher than those indicated above. These concerns also underscore the need to limit outflows of short-term capital to those envisaged in the program.

The Yugoslav authorities intend to reduce their external debt over the medium term (Table 17). The impact on debt service, the balance of payments, and growth prospects of such a policy under various scenarios is illustrated in Appendix III. The ratio of debt service to foreign exchange earnings is projected to increase to 35 percent in 1984 due to the scheduled increase in amortization payments. Thereafter it is projected to decline gradually to 21 percent in 1990 if the external debt is reduced by one third over the period, and to 26 percent if that debt is kept unchanged in nominal terms. Under both scenarios the ratio of total external debt to GSP declines substantially from the figure of 47 percent projected for end-1984. Under certain assumptions the need for special financial assistance could disappear in the near future without unduly restricting growth prospects. At this stage, however, there is some uncertainty as to whether normal financial flows can be expected as early as 1985.

3. Performance criteria

The performance criteria under the proposed 12-month stand-by arrangement comprise: (i) the lifting of the present price freeze by May 1, 1984, and the expansion in the share of output free of price control; (ii) the maintenance of railway and electricity tariffs, and of prices of natural gas, oil and oil derivatives, above certain minimum levels in real terms; (iii) monthly adjustments of nominal exchange rates to reach and hold a specified real rate of exchange; (iv) a limit on payments from Joint Reserve Funds to support ailing enterprises; (v) a quarterly schedule of increases in interest rates on bank deposits to raise them to real positive levels; (vi) quarterly ceilings on the net domestic assets of the banking system; (vii) limits on the growth in total public sector revenue; (viii) minimum increases in the public sector's net assets with the banking system; (ix) a ceiling on new external borrowing for the year; and (x) a phased increase in the external reserves of the banking system. 1/

These criteria are supplemented by the usual clause regarding trade and payments restrictions, and by a consultation requirement with the Fund at about the halfway point in the arrangement. This consultation will pay particular attention to two studies, one by the Yugoslav author-

1/ The quantitative criteria are set out in Table 12.

ities, the other by an outside group chaired by the Fund staff, of the foreign exchange allocation system of Yugoslavia, with a view to identifying any improvements in its functioning that may be feasible and desirable. It will also review such understandings as have not been made performance criteria. There are only three of these in the proposed stand-by arrangement: (i) a limitation on aggregate personal incomes paid by loss-making enterprises; (ii) a limitation on personal incomes per head paid by enterprises with obligations due and unpaid; and (iii) a schedule of reductions in export subsidies.

VI. Staff Appraisal

The proposed program seeks to consolidate the improvement achieved in the external current account in convertible currencies, which moved to a surplus of US$300 million in 1983 from a deficit of US$1,600 million, or about 2 1/2 percent of GSP, in 1982. It also seeks to avoid in 1984 outflows on short-term capital account which led to a fall in reserves of US$35 million during 1983 despite the substantial improvement on current account. Errors and omissions alone swung from an inflow of US$660 million in 1982 to an outflow in 1983 of more than US$1,230 million. The program therefore places particular emphasis on improving the balance on capital account, while safeguarding the momentum of improvement in current transactions.

To the extent that imports may have been underrecorded in 1983, the negative swing in short-term capital flows could have been less, and the dimension of the problem therefore somewhat less formidable. Nevertheless, most of the swing was due, the staff believe, to highly negative real interest rates which provided a strong incentive for capital export, as they also did for stepped-up inventory accumulation, and for reduced holdings of financial assets in relation to income.

Accordingly, a main element of this year's program is a sharp increase in interest rates on bank deposits. Forty percent of the gap between present deposit rates and the authorities' target of positive real interest rates is to be closed by May 1, 1984, and the rest in four additional steps by April 1, 1985. The first step will raise nominal interest rates on three-month dinar-denominated deposits for households from 12 percent to about 30 percent. It is expected that this move, combined with continuing restrictive financial policies, will significantly reduce short-term capital outflows and allow external reserves to increase by US$500 million. The progressive attainment of this reserve target is made a performance criterion.

In the staff's view it would have been preferable, given the foreign exchange constraint, to have buttressed the balance of payments position by a more rapid move to positive real rates of interest. However, the heavily indebted position of most Yugoslav enterprises provided a powerful argument for a somewhat slower approach. The staff consider that the five-step move over the next 12 months should be compatible with the needed balance of payments outturn, but would stress the importance of not allowing any administrative measures to weaken in any way the attraction of three month deposits to the general public and to enterprises.

Even allowing for some underrecording of imports, the progress made in strengthening the current account of the balance of payments has already been encouraging. To achieve this result a real depreciation of the exchange rate was a central feature of the 1983 stabilization program. By the end of the year it had reached a little more than 25 percent, but has since narrowed to about 15 percent as the nominal rate was stabilized after the last purchase in November. The real depreciation of the dinar is now to be restored in two steps to just under 25 percent by the end of June 1984, and to be held there by monthly adjustments in the nominal effective rate to offset inflation differentials.

A 25 percent real depreciation falls short of the 30 percent targeted under last year's program. The staff are not satisfied that an entirely reliable indicator of the adequacy of the dinar exchange rate can be defined. Within a certain range it would be unwise to be dogmatic about the level of Yugoslav competitiveness. For this reason, and because of the risk of fostering another price surge, the staff consider the very considerable improvement in competitiveness that will have been recorded between the beginning of 1983 and mid-1984 to be adequate. It is in their opinion compatible with the surplus on the current account in convertible currencies that is being sought.

Exchange rate action last year was supported by a tight monetary policy--the real money stock declined by 12 percent. Nevertheless, in response mainly to the aggressive depreciation of the exchange rate, the increase in retail prices accelerated from 31 percent during 1982 to 58 percent during 1983. However, sharply declining real interest rates caused the velocity of circulation of broad money to increase rapidly, helping to limit the decline in real economic activity to 2 1/2 percent. The assumption of no further increase in the income velocity of M2 is consistent with past patterns of the behavior of velocity as affected by changes in real rates of interest. The assumption is, however, necessarily crucial to an assessment of the adequacy of the proposed stance of monetary policy and it will need to be closely monitored in the course of the stand-by period and during the mid-term review. It is assumed that price inflation will moderate in 1984 to about 50 percent through the year. Credit limits have been specified which, on that assumption, will raise the real money stock just above its end-1983 level. This should accommodate an increase of about 1 percent in economic activity, led by a continued recovery of exports.

Fiscal restraint helped substantially in releasing resources for external adjustment last year. There was a positive balance between revenue and expenditure despite a decline in public sector revenue of 5 percent in real terms. Both features are to be carried through into 1984. A minimum increase in the net claims of the public sector on the banking system is incorporated in the credit ceilings, as well as a limit on the increase in public sector revenue to 85 percent of the increase in retail prices.

Expenditure cuts are to be concentrated on export subsidies. In addition, the growth in subsidies to loss-making enterprises through Joint Reserve Funds, which are outside the public sector, will be severely limited, so as to let price incentives have their full effect on the reallocation of resources required for external adjustment.

Wage restraint made an important contribution to the adjustment process in 1983. Real wages in the socialized sector declined by more than 10 percent last year and by about 25 percent over the last four years. Further wage restraint in 1984 is to focus on loss-making enterprises. They are to limit the increase in their nominal wage payments to two thirds of the rise in the wage bill of the socialized sector in the republic or province in which they are domiciled. A similar but more stringent limit is placed on the wage payments per employee of illiquid enterprises until they are again current in their debt service payments. In this way the transfer of labor to the more internationally competitive sectors of the economy is to be accelerated.

The growth in household income derived from sources other than employment in the socialized sector was greater in 1983 than had been anticipated. It is clear that incomes from small private agricultural plots and from those services which lie outside the socialized sector must have risen strongly. It is not clear how such incomes will move in 1984, but the thrust of the new measures affecting personal incomes in loss-making and illiquid enterprises is, in the opinion of the staff, a much needed inducement to labor mobility, which has been conspicuously difficult to achieve in the framework of Yugoslav conditions.

Adjustments in interest rates, in exchange rates, and in income payments cannot have their desired effect on the allocation of resources without a high degree of price flexibility. In recognition of this fact the Yugoslav authorities will lift the price freeze imposed at the turn of the year no later than May 1, 1984. The staff welcome this move without which the rest of the program could not become effective.

The staff agree with the Yugoslav authorities that, on balance, the proposed program is adequate to achieve the current account and reserve objectives set out in it. After lifting the price freeze, the Yugoslav authorities will themselves monitor a dozen indicators of performance. Of these, nine have been designated as performance criteria under the stand-by arrangement. In Yugoslav conditions, where administrative procedures complement market forces at several levels of government, the proposed combination of performance clauses is seen to provide useful support for a coherent implementation of a balanced set of policies.

The amount proposed for the stand-by is SDR 370 million or 60 percent of quota. The Fund has again in 1984 been a catalyst in mobilizing a package of financial assistance from governments and banks which is about to be put in place. The need for burden-sharing, as well as the need to build up reserves, might have warranted a somewhat higher level of Fund assistance. In arriving at the proposed figure, however, the staff have also had to take account of the cumulative use of Fund resources by Yugoslavia. After making full use of the proposed arrangement, Yugoslavia will have drawn an amount equal to 325.8 percent of quota, leaving some scope for further access within the present access limits.

The staff would stress that in a number of areas much remains to be done in Yugoslavia. In particular, it seems well possible that the way in which the present foreign exchange allocation system works in practice is not yet fully conducive to an economically effective use of foreign exchange on a national basis. It is understandable that this is a difficult and controversial area, but it is hoped that the closer study provided for in the letter of intent will establish a basis for further adjustments.

The staff also cannot now feel confident that the new measures affecting wages will prove to be either fully effective or fully adequate. The measures the authorities have chosen to implement represent a substantial first step in increasing the flexibility of the wage determination process. Nevertheless, the results will also need to be examined carefully in the mid-term review.

Lastly the staff would draw attention to the underlying assumption that the changes contemplated in real interest rates and continuing financial restraint will diminish the problems caused for monetary and balance of payments policy by the existence of foreign exchange accounts. This seems a reasonable assumption, but it is another point that will need to be reviewed carefully.

VII. Proposed Decision

1. The Government of Yugoslavia has requested a stand-by arrangement for the period of one year beginning April .., 1984 in an amount equivalent to SDR 370 million.

2. The Fund approves the stand-by arrangement attached to EBS/84/65.

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

Yugoslavia: Stand-By Arrangement

Attached hereto is a letter dated March 20, 1984, from the Governor of the National Bank of Yugoslavia and the Federal Secretary for Finance of Yugoslavia, requesting a stand-by arrangement and setting forth (a) the objectives and policies that the authorities of Yugoslavia intend to pursue for the period of the stand-by arrangement; (b) understandings of Yugoslavia with the Fund regarding a review that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Yugoslavia will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For a period of one year from , 1984, Yugoslavia will have the right to make purchases from the Fund in an amount equivalent to SDR 370 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. a. Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 100 million until August 31, 1984, the equivalent of SDR 190 million until December 15, 1984 and the equivalent of SDR 280 million until April 15, 1985.

b. None of these limits shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Yugoslavia's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 1, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Yugoslavia will not make purchases under this arrangement that would increase the Fund's holdings of its currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:

a. During any period in which

(1) the intention regarding the price freeze, as expressed in sentences 4 and 5 of paragraph 5 of the attached letter, has not been carried out; or

(2) the targets regarding prices of railway transportation, electricity, domestic natural gas, crude petroleum, and petroleum products referred to in paragraph 6 of the attached letter, and as specified in Annex I to that letter, have not been met; or

b. During any period in which the data at the end of the preceding period indicate that

(1) the intention regarding the exchange rate expressed in paragraph 7 of the attached letter, and as specified in Annex II to that letter, has not been carried out; or

(2) the limit on the increase in payments from Joint Reserve Funds referred to in paragraph 10 of the attached letter, and as specified in paragraph 4 of Annex III to that letter, has not been observed; or

(3) the limit on net domestic assets of the banking system referred to in paragraph 16 of the attached letter, and as specified in Annex V to that letter, has not been observed; or

(4) the limit on the growth of revenues of the public sector referred to in paragraph 17 of the attached letter, and as specified in Annex VI to that letter, has not been observed; or

(5) the limit on the net position of the public sector with the banking sector referred to in paragraph 18 of the attached letter, and as specified in paragraph 3 of Annex VII to that letter, has not been observed; or

(6) the target for the net convertible foreign reserves of the banking system, referred to in paragraph 20 of the attached letter, and as specified in Annex IX to that letter, has not been observed; or

c. If the limit on the disbursements of foreign debt referred to in paragraph 20 of the attached letter, and as specified in Annex VIII to that letter, is not observed; or

d. If the intention as regards interest rates as exnressed in paragraph 13 of the attached letter, and as specified in Annex IV to that letter, has not been carried out; or

e. During the period after November 30, 1984, until the policies of the program have been reviewed and suitable performance criteria have been establis˙ed in consultation with the Fund as contemplated by paragraph 24 of the attached letter, or, after such performance criteria have been established, while they are not being observed; or

f. During the entire period of this stand-by arrangement, if Yugoslavia:

(1) imposes or intensifies restrictions on payments and transfers for current international transactions; or

(2) introduces or modifies multiple currency practices; or

(3) concludes bilateral payments agreements which are inconsistent with Article VIII; or

(4) imposes or intensifies import restrictions for balance of payments reasons.

When Yugoslavia is prevented from purchasing under this arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Yugoslavia and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Yugoslavia's right to engage in the transactions covered by this arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility; or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Yugoslavia. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Yugoslavia and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Yugoslavia, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will be normally either the fifteenth day or the last day of the month, or the next business day if the selected day is not a business day. Yugoslavia will consult the Fund on the timing of purchases involving borrowed resources.

8. Yugoslavia shall pay a charge for this arrangement in accordance with the decisions of the Fund.

9. a. Yugoslavia shall repurchase the amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those related to repurchase as Yugoslavia's balance of payments and reserve position improve.

b. Any reductions in Yugoslavia's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

c. The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the sixth day or the twenty-second day of the month, or the next business day, if the selected day is not a business day, provided that the repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the stand-by arrangement, Yugoslavia shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Yugoslavia or of representatives of Yugoslavia to the Fund. Yugoslavia shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Yugoslavia in achieving the objectives and policies set forth in the attached letter.

11. In accordance with paragraph 24 of the attached letter, Yugoslavia will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed, or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Yugoslavia has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Yugoslavia's balance of payments policies.

March 20, 1984

Dear Mr. de Larosière,

1. The stabilization program which we pursued over the last three years, and which was supported by a stand-by arrangement with the Fund, has begun to show substantial results. In particular, the deficit on external current account in convertible currencies, after reaching a peak of US$3,300 million in 1979, was turned into a surplus of US$300 million in 1983. The swing in the last year alone came to about US$1,900 million. Part of this improvement was due to changes in the regional distribution of trade, and to a compression of imports, neither of which can be continued in 1984. The underlying adjustment, nevertheless, will in our judgment permit a further improvement in the external current account to a surplus in 1984 of at least US$500 million.

2. Developments in the external balance on capital account have been less satisfactory; as a result the increase in external reserves which we had targeted at the beginning of 1983 did not materialize. The most disappointing among the reasons for this outturn has been a swing in transitory items from a surplus of US$660 million to a deficit of perhaps as much as US$1,200 million, which nearly offset the whole of the improvement in the external current account. Apart from safeguarding the momentum of improvement in current transactions, therefore, our program for 1984 places particular emphasis on measures to improve the balance on capital account, so as to ensure an increase in official external reserves of at least US$500 million.

3. Final domestic demand was cut back by 4 percent in 1983, and, though exports to the convertible currency area began to respond forcefully to the gain in competitiveness during the year, gross social product (GSP) still showed some decline. A further reduction in domestic demand will again be necessary for balance of payments reasons in 1984, but as exports continue their recovery we expect that any tendency for GSP to decline will be reversed. The program we have adopted to reach these objectives is set out below. In support of it we request, on behalf of the Federal Executive Council of the Socialist Federal Republic of Yugoslavia, a stand-by arrangement with the Fund in an amount equivalent to SDR 370 million.

Price Policy

4. We see the program for 1984 as a stage in a longer-term stabilization process. Operating at normal capacity, the economy a few years ago ran a deficit on external current account that could not be financed on a sustainable basis. It can return to normal capacity production with external balance only after the structure of production has shifted sufficiently away from sectors that supply mainly domestic markets to sectors that can supply external markets as well. Such structural change entails temporary inflationary pressure as prices in priority sectors rise relative to those elsewhere. It also requires that many production programs and enterprises in the declining sectors retrench or be phased out as those in priority sectors expand.

5. For structural adjustment to take place as smoothly and as rapidly as possible relative prices need to be flexible. In recognition of this point a selective price freeze was allowed to lapse in July 1983, despite the additional push to inflation that it entailed. However, as price adjustments began to show a tendency toward overshooting around the turn of the year, a new price freeze was imposed effective December 23, 1983. Following a cooling-off period, this freeze will now be lifted no later than May 1, 1984. From then on the proportion of industrial output free of price control will be expanded from the 45 percent in effect before the latest freeze, to at least 55 percent, leaving some 35 percent with prices subject to approval by the relevant authorities, and 10 percent with prices set by the authorities directly.

6. The latest price freeze was preceded by increases particularly in railway and in electricity tariffs to bring them closer to economic levels. Further increases in relative prices in key sectors, notably railways and electric power, are planned for later in 1984 and in the years beyond. Periodic checks will ensure that, for the remainder of 1984, both railway and electricity tariffs will do no less than keep pace with increases in producer prices, and that prices of natural gas, oil, and oil derivatives rise no less than the dinar exchange rate of the dollar (Annex I). We expect that more frequent and gradual adjustments to administered prices such as are now planned will help to avoid future shocks to the general price level.

Exchange Rates

7. Exchange rate depreciation was one of the important elements in the stabilization program for 1983. By raising the dinar price of exports above producer prices realized at home, it was to provide the major incentive for shifting production toward exports and import substitutes, and thus to permit a return to capacity production with external equilibrium. To calm price expectations, the monthly depreciation of the exchange rate was temporarily discontinued around the turn of the year. However, to achieve a level of competitiveness adequate for a substantial liberalization of our trade and payments system, we shall by June 30, 1984 reach a target real depreciation of about 25 percent since the start of 1983, and hold it there by monthly adjustments sufficient to compensate for inflation differentials from the start of 1984 (Annex II).

8. We have already acted to expand the scope of a unified foreign exchange market. As of the beginning of this year, 54 percent of foreign exchange receipts from the export of goods and nonfactor services is transferred through authorized banks to an account in the National Bank of Yugoslavia to cover specified payments needs, including collective needs in the republics and provinces. The remaining 46 percent is divided into two parts. One part is retained by net exporters to meet their direct and indirect foreign exchange requirements. The rest is sold to authorized banks, which will offer it for sale to net importers or to other banks in the foreign exchange market. Enterprises that cannot service external debts from their own resources or those of associated

enterprises may draw in turn on those of their own bank, other banks in the republic or province in which they reside, other banks in the country at large, or the National Bank of Yugoslavia.

9. This is as far as we have carried the liberalization of our payments system to date. We are conscious that, as the flow of foreign exchange to Yugoslavia is normalized, further progress will be possible, based on the consent of those who earn the foreign exchange and to whom it therefore belongs. An official review will be considered in the Assembly of the SFRY by midyear. We have also consented to a separate study of the operations of the present system by a group chaired by the International Monetary Fund with the assistance of expert consultants from inside and outside Yugoslavia. This study will be completed not later than August 31, 1984, before the review of the stand-by arrangement specified in paragraph 24, to help in defining any further measures that may be deemed necessary to improve the efficiency of the system.

Financial Discipline

10. The restructuring of the economy that will permit a rapid expansion of economic activity without external risk, needs to be accelerated if inflationary pressures are to be contained. To this end the real resources available for subsidizing firms, some of which should be phased out, need to be reduced. The annual contributions into Joint Reserve Funds for 1984 were already determined before new directives could be implemented (Annex III). However, we have arranged that the percentage increase in payments from such funds during 1984 will be limited to one half the percentage increase in the retail price index over a year earlier. Greater selectivity will be required in the choice of enterprises to be supported, so as to help accelerate structural change.

11. We are also requiring that basic work units, whose deficits caused the 1983 consolidated accounts of the enterprise to show losses, limit the percentage year-on-year growth in their personal income payments in 1984 to two thirds the growth in the personal income payments in the socialized sector of the republic or province in which they are domiciled. Similarly, with effect from July 1, 1984, illiquid basic work units in enterprises that fail to meet their obligations to creditors when due, will be required until they are again current in their debt service obligations, to limit the percentage year-on-year growth in their personal income payments per employee, to one half the percentage growth in the personal income payments per employee in the socialized sector of the republic or province in which they reside.

Interest Rates

12. The acceleration of inflation last year frustrated our efforts to raise interest rates on dinar deposits to more nearly positive levels in real terms. Nominal rates on such deposits were to have been increased substantially at the end of last year, but were left unchanged at their

levels of February 1983. Disregarding the strictly temporary complication introduced by the price freeze, such interest rates accordingly remain substantially negative in real terms, and disadvantage those who switch foreign exchange into dinars. By encouraging delays in payments from abroad, such a situation reduces the supply of foreign exchange for imports. A shortage of imports in turn exacerbates the inflationary pressures that we intend to reduce.

13. A decisive move to raise nominal rates on dinar deposits to more competitive levels has therefore been decided upon Competitive levels would normally be defined as the yield in dinar terms of deposits abroad of comparable maturity. As exchange rate changes are only to equalize inflation differentials, following a corrective adjustment, the twelve-month change in producer prices plus a target real rate will do equally well. The difference between the initial rate on dinar deposits of three months and the target rate so defined, will be eliminated by April 1, 1985 in progressive installments starting May 1, 1984 (Annex IV). The discount rate and other lending rates of the National Bank of Yugoslavia will be similarly adjusted.

14. A firm timetable for interest rate increases has been set to ensure the attainment of our objectives. Negative real interest rates are an instrument for subsidizing borrowers, the real value of whose debt falls as prices rise, at the expense of depositors, the real value of whose deposits diminishes for the same reason. Unrealistically low interest rates help to maintain uneconomic enterprises, and in view of their adverse impact on external capital flows, they do so in a particularly damaging way. Their correction must nevertheless be phased in order to allow time for the necessary adjustments, and to be accompanied by measures, which we have instituted, to improve the financial structure of viable enterprises, that relied too heavily on debt financing in the past.

Credit Ceilings

15. Credit ceilings will again be required to ensure that the total claims on resources in the economy do not exceed the available supply, and that within this constraint priorities are clearly defined and enforced. In the process, structural adjustment will again be advanced and inflationary pressures moderated. During 1983 the stock of broad money declined by some 12 percent in real terms, due in part to a rate of inflation that turned out to be higher than originally assumed. A certain degree of flexibility was provided by the exclusion from the ceilings on net domestic assets of the banking system, by which monetary policy is defined, of valuation changes in net foreign liabilities and in foreign exchange deposits, but not so much as to thwart the intended effect of the ceiling.

16. Because of the uncertainty regarding inflation, we have again chosen to define our monetary ceilings in terms of the net domestic assets of the banking system, excluding valuation changes on net foreign liabilities and on foreign currency deposits. In fixing them for 1984 we have also taken into account the probable effects of interest rate increases on the desire to hold money. On this basis we calculate the ceiling for end-December 1984 at Din 4,633 billion compared with Din 3,942 billion a year earlier. A quarterly phasing of this increase through the year has been set (Annex V). Within each total, allowance is made for the planned increases, described below, in the net asset position of the public sector with the banking system.

Public Finance

17. The public sector will continue to contribute substantially to the improvement in the external balance, and to the moderation in inflationary pressure, by further reducing both its revenues and expenditures in real terms. For the republics and provinces, the cumulative quarterly year-on-year increase in revenue for general and collective consumption will be limited to 75 percent of the cumulative year-on-year percentage rise in total income of the socialized sector, except for the first quarter in which revenues are not to exceed their nominal level in the last quarter of 1983. Although federal and other revenues are exempt from this limit, the quarterly increase in total public sector revenue will be limited to 85 percent of the increase in the retail price index over the previous year, and will be monitored in that way (Annex VI).

18. Over the past few years public expenditures have risen even more slowly than revenues, and net assets with the banking system have accumulated commensurately. The increase in such assets was due in part to the requirement to deposit excess revenue in blocked accounts set up under the last stand-by arrangement. This practice permitted a larger expansion of credit to the productive sector within a given overall credit ceiling. To serve the same purpose more simply in 1984 we have set a minimum level for the public sector's net assets with the banking system, phased quarterly over the year. The amount of the increase, at Din 40 billion, is comparable to the 1983 performance in relation to public sector revenue as presently forecast (Annex VII).

19. Expenditure restraint will be concentrated on the payment of subsidies, particularly on subsidies to exporters who will receive sufficient stimulus by way of the exchange rate. Specifically, payments to export producers by the Community of Interest for Foreign Economic Relations, other than the customs duty drawback and the contribution to agricultural support funds, will be progressively reduced or eliminated in 1984. There will be no change in the proportion of import duties and fees credited to that Community. The resulting surplus revenues of that Community will be channeled into the blocked accounts set up under last year's stand-by arrangement. These deposits will not add to the growth already stipulated for the public sector's net assets with the banking system; they will rather be a component of it.

External Debt

20. We expect by these various measures to reach, and even to exceed, our external current account objectives and also to improve our performance on capital account. We are determined to begin reducing our external debt as soon as possible. Gross borrowing last year came to the equivalent of about US$4.3 billion; we expect to limit our requirements this year to US$3.3-3.5 billion (Annex VIII). To secure this amount we have again entered into arrangements with a group of creditor governments and banks to refinance debt falling due, and expect to draw a limited amount of fresh money to build up the reserves. We will make the progressive buildup of our reserves, by a total of US$500 million, a test of the success of our program (Annex IX).

21. Despite the scarcity of resources a certain outflow of capital from Yugoslavia is normal and acceptable. However, the outflow of export financing and short-term capit 1 of roughly US$2.0 billion in 1983 was clearly excessive. We will spare no effort to reduce such flows to no more than US$500 million in 1984, and to cover them by an equivalent surplus on current account in convertible currencies. One central element in achieving this reduction in capital outflow is our move to an active interest rate policy. In addition, we have intensified the application of controls on the repatriation of export earnings. If exporters fail to repatriate export proceeds within 90 days their credit line for that export will be withdrawn.

22. We have also decided to facilitate an accelerated drawdown on external lines of credit, particularly of the supplier credits granted by the Berne group of governments. The administrative regulations governing their utilization proved too restrictive in 1983. In order to ensure the availability of foreign exchange to repay the foreign credits, drawings were made available only to exporters who had proof of export orders in hand, and raw material imports financed by supplier credits have had to amount to less than 50 percent of the value of the export into which they entered. Along with the improvements in the foreign exchange allocation mechanism, the close link has now been broken between exports and imports in the allocation of external credits, so as to allow the financing of imports of general interest to the economy.

Other Matters

23. The Federal Executive Council of Yugoslavia does not intend to introduce any multiple currency practices or introduce new or intensify existing restrictions on payments and transfers for international transactions or enter into any bilateral payments arrangements with Fund members. A limitation on the export and import of dinars for travel to Din 1,500 per person for the first trip, and to Din 200 per person for each subsequent trip within one year, has helped to reduce illegal currency transactions, and will be removed as soon as circumstances permit. The Federal Executive Council does not intend to introduce new restrictions or intensify existing restrictions on imports for balance of payments reasons.

24. The Federal Executive Council believes that the policies set forth in this letter are adequate to achieve the objectives of its program but will take any additional measures that may have become appropriate for this purpose. The Yugoslav authorities will review economic developments in 1984 with the staff of the Fund on a quarterly basis. They will consult with the Fund as soon as is practicable after September 1984, and in any case not later than November 30, 1984 in order to review developments under the program and to reach such understandings with the Fund as may be necessary, including such modifications of the performance criteria that may be appropriate. Finally, the Federal Executive Council will consult with the Fund, in accordance with the Fund's policies on consultations, on the adoption of any measures that may become appropriate.

Sincerely,

Radovan Makić
Governor, National Bank of Yugoslavia

Vlado Klemenčić
Federal Secretary for Finance

Subject: Technical Note on Price Adjustments

1. Railway tariffs will be increased periodically in the course of 1984 such that, on average, they are at least 10 percent higher than the average level of railway tariffs at the end of December 1982, multiplied by the index of industrial producer prices expressed with a base of December 1982 equal to 1.00, as indicated below:

Average railway tariffs shall be a minimum of 10 percent higher than the average at the end of December 1982, multiplied by the index of industrial producer prices, with a base of December 1982 equal to 1.00, for the month of:	Corresponding average level of tariffs to be made effective not later than:
April 1984	June 30, 1984
October 1984	December 31, 1984

For the purpose of this calculation, the increases in freight rates and in passenger fares are assumed to have weights of 80 percent and 20 percent, respectively, in the share of railway revenue.

2. Electricity tariffs will be adjusted periodically in the course of 1984 such that the adjusted electric power subindex of the industrial producer price index, with a base of March 1983 equal to 100, is at least 15 percent higher than the industrial producer price index that covers the same length of time, but with a lag of one month, as shown below. For this purpose the industrial producer price index is expressed with a base of February 1983 equal to 100.

The adjusted electric power price index (March 1983 = 100) for the month of:	Shall be at least 15 percent higher than the industrial producer price index (February 1983 = 100) for the month of:
April 1984	March 1984
December 1984	November 1984

3. The adjusted electric power subindex for a specified month is equal to the official electric power price subindex also expressed with a base of March 1983 equal to 100, divided by the seasonal coefficients. The seasonal coefficients listed below permit a comparison of electricity tariff schedules between months involving both winter and summer tariffs. In particular, the coefficients indicate what the relative movement of the published electricity price index would have been in the course of 1983, if there had not been increases in the set of tariff schedules but only the usual shifts between winter and summer tariffs.

Seasonal Coefficients

January	1.210
February	1.210
March	1.000
April	0.871
May	0.879
June	0.879
July	0.879
August	0.879
September	1.081
October	1.210
November	1.210
December	1.210

4. The average producer prices of domestic natural gas, of crude petroleum and of petroleum products (including gasoline, kerosene, diesel oil, fuel oil, and LPG) will be increased on a quarterly basis by no less than the percentage increase in the dinar/U.S. dollar exchange rate in the course of 1984, as shown below:

Minimum Percentage Increase in Each of the Domestic Natural Gas, Crude Petroleum, and Petroleum Products Prices over Those in Effect as of January 31, 1984

Equal to the percentage increase in the exchange rate, dinars per U.S. dollar, from December 31, 1983 until:	To be made effective no later than:
March 31, 1984	April 30, 1984
May 31, 1984	June 30, 1984
August 31, 1984	September 30, 1984
November 30, 1984	December 31, 1984

5. The price adjustments specified in paragraphs 1-4 above are understood to be minima and will not bar other increases in prices in real terms that may be agreed upon with the World Bank.

6. A record of the price increases stipulated in paragraphs 1-4 will be published, as they take place, in the Official Gazette of the Socialist Federal Republic of Yugoslavia or in the Official Gazette of the relevant republic or province.

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

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

1. The real exchange rate of the dinar is expressed as 0.35 (deutsche mark per dinar) plus 0.24 (Italian lire per dinar) plus 0.15 (U.S. dollars per dinar) plus 0.12 (French francs per dinar) plus 0.06 (Austrian schillings per dinar), plus 0.04 (Swiss francs per dinar) plus 0.04 (pounds sterling per dinar) with a base of December 31, 1983 equal to 100 for each bilateral exchange rate of the dinar, multiplied by the ratio of an index of the movements in Yugoslavia's industrial producer prices to a weighted index of the movements in industrial producer prices in the foregoing seven countries as specified in section 3 below.

2. 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 December 31, 1983.

3. The weighted index of industrial producer prices in the foregoing seven countries is defined as 0.35 (index of German prices for industrial products) plus 0.24 (index of Italian wholesale prices) plus 0.15 (index of U.S. wholesale prices for industrial goods) plus 0.12 (index of French prices of industrial goods) plus 0.06 (index of Austrian wholesale prices) plus 0.04 (index of Swiss prices for home goods) plus 0.04 (index of U.K. prices of industrial output) 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 December 31, 1983.

4. 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. No later than 10 days after the end of each month, the following data as of the end of the month will be telexed to the Fund: dinar exchange rates of each of the seven foreign currencies, and the indices of the nominal exchange rate, the real exchange rate, Yugoslav industrial producer prices, the weighted average of seven foreign industrial price indices, and relative industrial prices, where each index is expressed with a base of December 31, 1983 equal to 100.

5. The index of the real exchange rate of the dinar, with a base of December 31, 1983 equal to 100, will be no higher than 110.4 at the end of March 1984, no higher than 105.8 at the end of April and the end of May 1984, and no higher than 101.3 at the end of June 1984 and at the end of each month thereafter. A margin of error of 1.0 percentage point will be acceptable.

Subject: Technical Note on Financial Discipline in the Enterprise Sector

1. For the purpose of this agreed memorandum, a loss-making enterprise is understood to mean any work organization in the socialized sector, which for the calendar year 1983 registered a financial loss in its annual financial report to the SDK, as determined before taking into account any outside grants, subsidies, or credits which may be used to cover such losses. Cumulative quarterly limits on personal income payments will apply to all loss-making basic organizations of associated labor (BOAL) within each loss-making enterprise for the periods shown below and will be calculated such that the percentage increase in total payments of personal incomes by all such loss-making BOALs over the corresponding period of the preceding year will be no more than 67 percent of the percentage increase in total payments of personal incomes in the socialized sector in the republic or autonomous province in which the enterprise is domiciled, over a similar period of time but with a lag of one quarter. If an enterprise with a financial loss in 1983 registers a financial surplus for the first nine months of 1984, the above restriction on payments of personal incomes by its BOALs will be lifted in the fourth quarter of 1984 after these results become known.

Periods for which the Percentage Increases in Total Payments of Personal Incomes shall be Calculated

	Personal Income Payments by Affected Loss-Making BOALs	Personal Income Payments in the Socialized Sector
Second quarter	Jan.-June 1984 / Jan.-June 1983	Oct. 1983-March 1984 / Oct. 1982-March 1983
Third quarter	Jan.-Sept. 1984 / Jan.-Sept. 1983	Oct. 1983-June 1984 / Oct. 1982-June 1983
Fourth quarter	Jan.-Dec. 1984 / Jan.-Dec. 1983	Oct. 1983-Sept. 1984 / Oct. 1982-Sept. 1983

2. For a BOAL with obligations to creditors due and unpaid that is in a similarly illiquid work organization, the percentage growth of payments of personal incomes per employee will be restricted to 50 percent of the percentage growth of payments of personal incomes per employee in the socialized sector of the relevant republic or province. Beginning with the month after such an enterprise has eliminated all payments arrears, the restriction on personal income payments will be lifted, provided that the clearing of arrears did not include grants or borrowing other than bank credit on commercial terms. Legislation to that effect will be implemented by July 1, 1984.

3. Exceptions to the limitations in sections 1 and 2 will be made for loss-making BOALs in the following branches: electricity (0101), coal production (0102), ferrous metals (0107), production of foodstuffs (0130), health and social security (1300), and railways (0601).

4. Any increase, in nominal terms, in payments (including credit extended) from Joint Reserve Funds, which have been formed outside of any one work or composite organization of associated labor, will be subject to cumulative quarterly limits, such that the percentage increase in aggregate payments from Joint Reserve Funds (including both grants and credits) will be no more than 50 percent of the percentage increase in the retail price index over a similar period of time but with a lag of one quarter, as shown below:

Periods for which the Percentage Increases in Joint Reserve Funds' Outlay for Grants and Credits and the Retail Price Index shall be Calculated

	Outlays of Reserve Funds	Retail Price Index
Second quarter	Jan.-June 1984 / Jan.-June 1983	Average (6 months to March 1984) / Average (6 months to March 1983)
Third quarter	Jan.-Sept. 1984 / Jan.-Sept. 1983	Average (9 months to June 1984) / Average (9 months to June 1983)
Fourth quarter	Jan.-Dec. 1984 / Jan.-Dec. 1983	Average (12 months to Sept. 1984) / Average (12 months to Sept. 1983)

Subject: Technical Note on Interest Rates of the Yugoslav Banking System

1. It is agreed that for three-month dinar deposits of households, the interest rate will be adjusted on May 1, 1984 so as to eliminate 40 percent of the difference between the nominal interest rate as of January 1, 1984 and the target nominal interest rate which is calculated as defined in section 2 below. Enterprises will receive the same interest rate on three-month deposits as apply to households. The three-month interest rate will be adjusted on July 1, 1984 to eliminate 55 percent of the difference between the target nominal interest rate as of that date and the rates in effect on January 1, 1984. Similarly, on October 1, 1984, 70 percent of the difference, and on January 1, 1985, 85 percent of the difference between the interest rate as of January 1, 1984 and the target nominal interest rates on the respective dates will be eliminated. On April 1, 1985, the interest rate for three-month deposits will be set at its target nominal level.

2. The target nominal interest rate for three-month dinar deposits of households and enterprises is equal to the percentage increase in the industrial producer price index over the preceding 12 months plus 1 percentage point. Thus, for the purpose of adjusting interest rates on May 1, 1984 the target rate for three-month dinar deposits will be based on the percentage increase in producer prices from March 1983 to March 1984.

3. The discount rate of the National Bank of Yugoslavia will be increased on May 1, 1984 to the same level as the new three-month dinar deposit rate. Thereafter, the discount rate will be adjusted according to the method and timing described in section 1 on the basis of the same target nominal interest rate that applies to three-month dinar deposits. Adjustments to interest rates of the National Bank of Yugoslavia on credits for selective purposes will be three quarters of the contemporaneous adjustment, in percentage points, of the discount rate of the National Bank of Yugoslavia, beginning with the adjustment in May 1984.

4. Any modifications in the schedule of changes in interest rates that in the view of the Yugoslav authorites may become necessary will be reviewed with the Fund in the context of the consultation specified in paragraph 24 of the letter of intent.

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

1. The banking system is defined as the consolidated accounts of the national banks and 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 1983 (In billions of dinars)
Net foreign liabilities	1,202
Plus M2 (money and quasi-money)	2,927
Minus public sector deposits	187
Net domestic assets	3,942

2. In setting the ceiling for NDA the effects of changes in the exchange rate on the net foreign liabilities of the banking system, and on foreign currency liabilities which are included in quasi-money, are excluded by applying the necessary valuation adjustment (cumulative from end-December 1983) to the relevant data. It is understood that the foreign exchange proceeds of any special assistance will be shown both as an asset and a foreign exchange liability of the National Bank of Yugoslavia.

3. It is agreed that NDA for the end of December 1984 shall not exceed Din 4,633 billion compared with the level of Din 3,942 billion at the end of December 1983. Further, the authorities will ensure that NDA will not exceed the ceilings established in Table 1 below.

Table 1. Yugoslavia: Credit Ceilings

(In billions of dinars)

	Net Domestic Assets of the Banking System
1984 January-June 1/	4,117
June 2/	4,239
July-September 1/	4,378
September 2/	4,410
October-December 1/	4,570
December 2/	4,633

1/ Average of end-of-month data.
2/ End-month data.

4. Any modifications in the ceilings on net domestic assets that in the view of the Yugoslav authorities may become necessary will be reviewed with the Fund in the context of the consultation specified in paragraph 24 of the letter of intent.

Subject: Technical Note on Public Sector Revenue Ceiling

Public sector revenue for the purpose of this ceiling is defined to comprise revenue of sociopolitical communities plus revenue for collective consumption, which totaled Din 1,172.553 billion in 1983. Cumulative quarterly limits on public sector revenue will apply for the periods shown below and will be calculated such that the percentage increase in public sector revenue over the corresponding period of the preceding year will be no more than 85.0 percent of the percentage increase in the retail price index over the same length of time but with a lag of one quarter, as shown below. A margin of error of Din 2.0 billion will be acceptable.

Periods for which the Percentage Increases in Public Sector Revenue and the Retail Price Index shall be Calculated

	Public Sector Revenue	Retail Price Index
Second quarter	$\frac{\text{Jan.-June 1984}}{\text{Jan.-June 1983}}$	$\frac{\text{Average (6 months to Mar. 1984)}}{\text{Average (6 months to Mar. 1983)}}$
Third quarter	$\frac{\text{Jan.-Sept. 1984}}{\text{Jan.-Sept. 1983}}$	$\frac{\text{Average (9 months to June 1984)}}{\text{Average (9 months to June 1983)}}$
Fourth quarter	$\frac{\text{Jan.-Dec. 1984}}{\text{Jan.-Dec. 1983}}$	$\frac{\text{Average (12 months to Sept. 1984)}}{\text{Average (12 months to Sept. 1983)}}$

Subject: Technical Note on the Net Assets of the Public Sector with the Banking System and the Blocking of Excess Revenue of the Community of Interest for Foreign Economic Relations in the National Bank of Yugoslavia

1. The net assets of the public sector with the banking system are defined as total deposits of the Federal Government, other sociopolitical communities and communities of interest for collective consumption with the national banks and basic and associated banks, minus credits (including purchases of bonds and notes) extended by these banks to the said public sector entities. Excess public sector revenue blocked in the National Bank of Yugoslavia in 1983 and after is included in the assets of the public sector. The net asset position of the public sector with the banking system is calculated to equal the sum of the following items in the monetary survey:

	End-December 1983 (In billions of dinars)
1. Deposits of Federal Government, other sociopolitical communities and communities of interest for collective consumption with NBY	22.3
2. Excess public sector revenue blocked in accounts with the NBY (excluding deposits of citizens)	4.2
3. Deposits of Federal Government, other sociopolitical communities and communities of interest for collective consumption with basic and associated banks	164.3
4. Total public sector deposits (= 1 + 2 + 3)	190.8
5. NBY credit (including bonds) to Federal Government	83.3
6. NBY credit (including bonds) to other sociopolitical communities and communities of interest for collective consumption	8.4
7. Basic and associated bank credit (including bonds) to the Federal Government, other sociopolitical communities, and communities of interest for collective consumption	41.7
8. Total public sector credit (= 5 + 6 + 7)	133.4
9. Net asset position of the public sector with the banking system (= 4 - 8)	57.4

2. It is agreed that for 1984 payments from the Community of Interest for Foreign Economic Relations (CIFER) to export producers will be limited as follows. For the customs duty drawback on export production and for subsidies through agricultural funds, rates set in relation to exports will remain unchanged from 1983. Rebates for taxes and contributions out of personal and enterprise incomes, as well as rebates for gasoline coupons for tourists, will be abolished at the end of September 1984. Also, rates of rebates for transportation costs will be halved at the end of September 1984, and subsidies for advertising abroad for tourism and industry will be reduced from 1 percent to 0.5 percent of the value of exports by January 1, 1985. Further, it is understood that 59.7 percent of all customs duties and import fees will continue to be credited to the CIFER. Excess revenue of the CIFER will be transferred to the Federal Government's blocked account with the National Bank of Yugoslavia and thus contribute to the increase in the net asset position of the public sector with the banking system.

3. It is agreed that the net asset position of the public sector with the banking system at the end of December 1984 shall be no less than Din 97 billion, compared with Din 57 billion at the end of December 1983. Further, the authorities will ensure that the net position of the public sector with the banking sector shall be no less than Din 60 billion at the end of June 1984, nor less than Din 85 billion at the end of September 1984.

Subject: Technical Note on External Borrowing Limits

In 1984 disbursements on loans with original maturities of more than 1 year and up to and including 12 years will be limited to a maximum of US$3.5 billion of which no more than US$1.8 billion will be loans with original maturities of up to and including 5 years. Net drawings on short-term credits with an original maturity of up to and including one year will be limited to US$0.5 billion in 1984. The limits on all maturities include loans contracted by commercial banks and loans contracted directly or guaranteed by the National Bank of Yugoslavia or any other public sector entity and also include refinancing under multilateral exercises of maturities due in 1984.

Subject: Technical Note on the Balance of Payments Test

1. The aim of the program is to achieve an increase in the combined convertible external reserves of the National Bank of Yugoslavia and the commercial banks of at least US$500 million during 1984. Given the seasonal pattern of the receipts from services and to some extent from exports, the balance of payments is likely to record an overall deficit during the first half of 1984. Nevertheless, foreign reserves as defined below, and adjusted for any increase in short-term debt, which reached the level of US$1,622 million at the end of 1983, will not be allowed to fall below the level of US$1,500 million at the end of June 1984 and shall increase to at least US$1,800 million by the end of September 1984, and to at least US$2,122 million by the end of December 1984.

2. Convertible external reserves are defined in the following way:

	End-December 1983 (In millions of U.S. dollars)
National Bank of Yugoslavia	
Reserve position in the Fund	55.0
Holdings of SDRs	--
Gold 1/	78.4
Securities	60.7
Foreign exchange	860.5
Total	1,054.6
Foreign assets of commercial banks	567.0
Total foreign reserves of the banking system	1,621.6

1/ Valued at US$42.22 per ounce.

3. For the purpose of the calculation of foreign reserves in 1984, any net increase in short-term debt of the banking system with an original maturity of up to and including one year during the period December 31, 1983 to the date in question will be excluded. Short-term debt of the banking system is defined as the sum of short-term debt of the NBY, which amounted to US$176 million on December 31, 1983, and short-term debt of the commercial banks, which amounted to US$964 million on December 31, 1983.

Yugoslavia - Fund Relations

(End-February 1984)

I. Membership status

(a) Yugoslavia is an original member of the Fund.
(b) Status - Article XIV.

A. Financial Relations

II. General Department

(a) Quota: SDR 613 million.

(b) Total Fund holdings of dinars: SDR 2,553.56 million, or 416.6 percent of quota.

(c) Fund credit: SDR 1,940.56 million, or 316.6 percent of quota. Of which:
SDR 1,853.99 million, or 302.5 percent of quota under tranche policies; and SDR 86.56 million, or 14.1 percent of quota under special facilities.

(d) Reserve tranche position: none.

(e) Current Operational Budget (maximum use of currency): none.

(f) Lending to the Fund: none.

III. Current stand-by arrangement and special facilities

(a) Current stand-by arrangement: none.

(b) In May 1979 Yugoslavia entered into a stand-by arrangement covering the first credit tranche, i.e., SDR 69.25 million, which was used in full.
On June 6, 1980 the Executive Board approved a stand-by arrangement effective through December 31, 1981 for an amount of SDR 339.325 million (122.5 percent of the quota then in effect) of which SDR 200 million was purchased. This arrangement was replaced by a three-year stand-by arrangement approved by the Executive Board on January 30, 1981 for an amount of SDR 1,662 million (400 percent of the quota then in effect). Yugoslavia purchased the full amount available under this arrangement. Cumulative purchases under these arrangements amounted to SDR 1,931.25 million, equivalent to 315.05 percent of the present quota.

(c) Special facilities: none in the past three years.

IV. SDR Department

(a) Net cumulative allocations: SDR 155.16 million.

(b) Holdings: SDR 0.04 million, or 0.03 percent of net cumulative allocations.

(c) Current designation plan: not included.

V. Administered Accounts

(a) Trust Fund loans: none.

(b) SFF Subsidy Account: none.

VI. Overdue obligations to the Fund

None.

B. Nonfinancial Relations

VIII. Exchange rate arrangement

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 arrangements, take place at a fluctuating exchange rate. However, the authorities intervene in the foreign exchange markets, when necessary, to ensure orderly conditions or 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 February 29, 1984 were Din 122.6989 and Din 123.0675 per U.S. dollar, respectively. Rates are quoted for certain other currencies.

Yugoslavia maintains a restriction under Article VIII on the availability of foreign exchange for travel. This restriction has been approved by the Fund's Executive Board until the 1984 Article IV consultation, or October 31, 1984, whichever is earlier.

IX. Last consultation

The staff report for the 1982 Article IV Consultation and Review of Stand-By Arrangement with Yugoslavia (EBS/83/46, 2/24/83) was considered by the Executive Board at EBM/83/47 (3/11/83). The Executive Board's decision on the 1982 consultation with Yugoslavia (Decision No. 7362-(83/47), adopted March 11, 1983) was as follows:

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 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.

The Executive Board's decision on the review under stand-by arrangement with Yugoslavia, Decision No. 7363-(83/47), was also adopted on March 11, 1983.

A memorandum reviewing Yugoslavia's economic performance and the external financing package (EBS/83/88, 5/4/83) was issued prior to the May drawing under the stand-by arrangement.

The midyear review of the stand-by arrangement was completed at EBM/83/113 (7/28/83) on the basis of EBS/83/141 (7/8/83). The Executive Board's decision on the review, Decision No. 7483-(83/114), was adopted on July 29, 1983.

A memorandum reviewing Yugoslavia's external financing package (EBS/83/217, 10/4/83) was issued prior to the November drawing under the stand-by arrangement.

Table 1. Yugoslavia: Fund Position During Period of Arrangement

	Outstanding at the Beginning of Arrangement March 31, 1984	1984 April-June	1984 July-Sept.	1984 Oct.-Dec.	1985 Jan.-April
		(In millions of SDRs)			
Transactions under tranche policies (net) 1/	--	52.71	51.44	28.46	28.54
Purchases	--	100.00	90.00	90.00	90.00
Ordinary resources	--	50.00	45.00	45.00	45.00
Enlarged access resources	--	50.00	45.00	45.00	45.00
Repurchases	--	47.29	38.56	61.54	61.46
Ordinary resources	--	31.69	30.19	37.35	44.50
Enlarged access resources	--	15.60	8.37	24.19	16.96
Transactions under special facilities (net) 2/	--	-34.63	-17.31	-17.31	-17.31
Purchases	--	--	--	--	--
Repurchases	--	34.63	17.31	17.31	17.31
Total Fund credit outstanding (end of period)	1,922.50	1,940.58	1,974.71	1,985.86	1,997.09
Under tranche policies 1/	1,835.94	1,888.65	1,940.09	1,968.55	1,997.09
Under special facilities	86.56	51.93	34.62	17.31	--
		(As percent of quota)			
Total Fund credit outstanding (end of period)	313.6	316.6	322.1	323.9	325.8
Under tranche policies 1/	299.5	308.1	316.5	321.1	325.8
Special facilities 2/	14.1	8.5	5.6	2.8	--

Source: International Monetary Fund.

1/ Ordinary and enlarged access resources.
2/ Compensatory financing facility.

Yugoslavia: Medium-Term Scenario for External Debt and the Balance of Payments

The Yugoslav authorities are determined to reduce their external indebtedness over the medium term. To ascertain the implications of such a policy for the balance of payments and the possible growth of GSP, a small computational model has been used to simulate various scenarios. The calculations should be regarded as illustrative since they depend crucially on the underlying assumptions which, over the medium term, are inevitably somewhat arbitrary.

Foreign exchange earnings, the terms of trade, and the terms of borrowing are treated as exogenous. Similarly, on these assumptions debt service payments on external debt outstanding at the end of 1983 are given. Also assumed are special financing arrangements from governments and commercial banks for 1984 and 1985, as well as financing from multinational development banks, normal suppliers' credits, export financing and short-term capital movements. After a net borrowing and a reserve target 1/ are set, the model can be used to solve for the level of required gross borrowing from commercial sources, debt service payments and the permissible growth of merchandise imports. Debt service projections are based on the assumptions that refinancing by governments and banks as well as new borrowing from banks carry a maturity of 7 years with a 4 year grace period. Normal suppliers' credits carry a 5 year maturity period with 2 years' grace while suppliers' credits under the Berne package, which are mostly for raw materials and intermediate goods, carry a 3 year maturity with no grace period. The average interest rate for medium- and long-term debt for 1984 and beyond is assumed to be 10 percent while the interest rate on short-term debt is assumed to be 12 percent. Based on a crucial assumption of the elasticity of GSP with respect to imports, the model can also solve for the growth rate of GSP that is consistent with the permissible growth of merchandise imports.

In scenario 1, an aggressive reduction in external indebtedness has been assumed; total debt is reduced by one third by the end of 1990 and the ratio of debt to GSP declines from 45 percent in 1983 to 20 percent in 1990. In scenario 2, a more gradual reduction of external indebtedness has been assumed, leading to a 20 percent decline in total debt by 1990 and a reduction in the ratio of debt to GSP to 23 percent at the end of 1990. Finally, scenario 3 assumes that external debt will be kept at the 1983 level in nominal terms, which would still entail a decline in real terms; it would decline to 28 percent of GSP.

The gross borrowing requirement in scenario 1 declines smoothly from US$3.2 billion in 1984 to US$1.2 billion in 1990. In scenario 2 the gross borrowing requirement declines more modestly to U$2.5 billion, whereas in scenario 3 it increases slightly to US$3.6 billion. In relation to foreign

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1/ The reserve target is an increase of US$500 million in 1984 and annual increases of US$200 million thereafter to maintain the ratio of reserves to imports roughly unchanged.

exchange earnings, however, the gross borrowing requirement declines in all three scenarios from 23 percent of foreign exchange earnings in 1984 to 6, 12, and 17 percent, respectively, in 1990. Under all three scenarios, the need for new financing on commercial terms increases sharply in 1986. This is mainly a result of the specification of the model, which assumes no refinancing operations beyond 1985. The model has for illustrative purposes been specified with a refinancing operation in 1985 of roughly half the size of the proposed 1984 exercise. If no new financing package was to be concluded in 1985, the need for new borrowing from normal commercial channels would, under the present assumptions, increase to US$1.4 billion in scenarios 1 and 2, and to US$1.6 billion in scenario 3. It is questionable at this stage whether such a swift return to market financing is feasible.

Debt service payments do not begin to deviate substantially between the three scenarios until 1989 when the amortization payments for borrowing made in 1986 begin to weigh in. By 1990, however, there is a US$1.1 billion difference between scenarios 1 and 3 of which some US$550 million is due to interest payments. The ratio of debt to GSP is not unduly high, and in all three scenarios it declines rapidly during the period. However, reflecting the fact that most debt is on commercial terms with relatively short maturity, the debt service ratio remains high during most of the period (30-35 percent) but toward the end of the period it declines rapidly in scenario 1, to 21 percent.

Scenario 1 initially produces lower growth rates of GSP 1/ but by 1990 the growth rates reach the same magnitude as in the other two scenarios as the drop in interest payments produces an appreciable effect on the availability of funds for import payments. Nevertheless, the compound average growth rate in scenario 1 at 3.5 percent remains significantly below that of scenario 2 (4.3 percent) and scenario 3 (4.5 percent). With an average prospective growth in the labor force of 2.5 percent it would seem desirable to aim at a growth rate toward the higher end of the range to achieve a more marked improvement in productivity and in the rate of unemployment.

The growth scenarios rest crucially on the assumption for export growth and on the elasticity of imports with respect to GSP. For example, a number of runs with different elasticity assumptions showed that a gradual increase in the elasticity of imports with respect to GSP, from 1.0 in 1984 to 1.25 percent in 1989, rather than a continued unitary elasticity, would cut a full percentage point off the growth rate of GSP by the end of the period. Similarly, should the Yugoslav authorities succeed in reducing further the import to GSP ratio, the growth rate of GSP consistent with the import scenario would increase.

1/ Each scenario assumes a unitary elasticity of imports with respect to GSP. While this elasticity has been lower on average over the 1979-83 period, it is uncertain whether the Yugoslav authorities will compress further the import to GSP ratio over the medium term; indeed the program for 1984 is based on some catch-up in imports.

These scenarios show clearly that the future growth path depends on the policy stance with respect to external debt. More importantly, however, external debt issues, over the short-term at least, are likely to be heavily influenced by the availability of foreign financing. Nevertheless, the model seems to indicate that it should be possible to raise the necessary financing on commercial terms after 1985 without resorting to special financing assistance. Should the authorities opt for the more rapid reduction of external debt, it might be necessary to reduce the import to GSP ratio further in order to achieve socially acceptable rates of growth over the medium term, which would again underline the importance of speeding up the process of structural adjustment.

Table 1. Yugoslavia: Medium-Term External Debt and Payments Scenarios, 1983-90

(In millions of U.S. dollars)

	1983	1984	1985	1986	1987	1988	1989	1990
Scenario 1								
Current account balance	299	500	900	1,200	1,500	1,700	2,000	2,100
Gross medium- and long-term borrowing	3,660	3,195	2,695	2,550	2,104	1,660	1,514	1,246
of which: Additional borrowing on commercial terms	600	--	165	1,095	754	510	164	--
Amortization of medium- and long-term debt outstanding at end-1983	2,363	2,745	2,365	2,770	2,450	1,720	880	410
Amortization of new borrowing	--	--	167	300	450	1,135	1,957	2,373
Interest payments	1,489	1,650	1,642	1,574	1,481	1,360	1,214	1,05[illegible]
Total debt outstanding at year end	19,525	19,985	19,485	18,685	17,585	16,225	14,625	12,925
Debt service ratio (percent of foreign exchange earnings)	32.8	34.9	31.9	32.8	29.5	27.3	24.4	20.9
Ratio of total debt to GSP	45.2	47.7	43.2	38.8	34.1	29.2	24.4	19.9
Real GSP growth (in annual percent change)	-2.5	0.6	3.7	2.6	2.6	3.7	3.6	4.5
Scenario 2								
Current account balance	299	500	900	1,200	1,400	1,260	1,100	900
Gross medium- and long-term borrowing	3,660	3,195	2,695	2,550	2,204	2,360	2,414	2,474
of which: Additional borrowing on commercial terms	600	--	165	1,095	354	1,010	1,064	1,124
Amortization of medium- and long-term debt outstanding at end-1983	2,363	2,745	2,365	2,770	2,450	1,720	880	410
Amortization of new borrowing	--	--	167	300	450	1,135	1,957	2,4[illegible]
Interest payments	1,489	1,650	1,642	1,574	1,486	1,395	1,314	1,26[illegible]
Total debt outstanding at year-end	19,525	19,985	19,485	18,685	17,685	16,825	16,125	15,625
Debt service ratio (percent of foreign exchange earnings)	32.8	34.9	31.9	32.8	29.6	27.5	24.9	22.3
Ratio of total debt to GSP	45.2	47.7	43.2	38.8	34.1	29.5	25.6	22.9
Real GSP growth (in annual percent change)	-2.5	0.6	3.7	2.6	3.5	5.9	5.3	5.2
Scenario 3								
Current account balance	299	500	700	500	450	450	400	350
Gross medium- and long-term borrowing	3,660	3,195	2,895	3,250	3,154	3,227	3,371	3,333
of which: Additional borrowing on commercial terms	600	--	365	1,795	1,804	1,877	2,021	2,263
Amortization of medium- and long-term debt outstanding at end-1983	2,363	2,745	2,365	2,770	2,450	1,720	880	410
Amortization of new borrowing	--	--	167	300	450	1,192	2,214	2,930
Interest payments	1,489	1,650	1,652	1,629	1,624	1,621	1,620	1,624
Total debt outstanding at year end	19,525	19,985	19,685	19,585	19,535	19,485	19,485	19,535
Debt service ratio (percent of foreign exchange earnings)	32.8	34.9	31.9	33.1	30.4	29.0	27.8	26.4
Ratio of total debt to GSP	45.2	47.7	43.0	38.9	35.8	33.0	30.5	28.3
Real GSP growth (in annual percent change)	-2.5	0.6	5.1	5.7	4.2	4.1	4.0	3.9
Memorandum items:								
Export volume growth (annual percent change)	13.6	9.4	6.2	4.6	4.0	4.0	4.0	4.0
Repurchases from the IMF	184	282	337	380	404	405	377	163
Charges payable to the IMF	162	215	214	182	139	91	44	14
Amortization payments on refinancing packages	--	--	--	530	530	1,044	1,121	857
1983 package 1/	--	--	--	530	530	530	264	--
1984 package	--	--	--	--	--	514	514	514
1985 package 2/	--	--	--	--	--	--	343	343

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

1/ Including US$600 million in new money from banks in 1983, but excluding financial credits and suppliers' credits under the Berne arrangement.
2/ Hypothetical example.

Yugoslavia - Summary of Program for 1984 Under Stand-By Arrangement

1. Assumptions

a. Real GSP growth: 0.6 percent; through-the-year increase in retail prices: 50 percent.

b. Growth of markets in the convertible area: 3 percent. Unchanged terms of trade for the convertible as well as for the nonconvertible area. Current account surplus for the nonconvertible area: US$50 million.

c. Unchanged velocity of broad money.

2. Targets

Current account surplus with the convertible area: US$500 million or 1 percent of GSP. Buildup of international reserves: US$500 million.

3. Principal elements

a. Demand management: final domestic demand is projected to decline by 0.7 percent; within the total public consumption is expected fall by 4 percent.

b. Budget: the increase in public sector revenue is to be limited to 85 percent of the increase in retail prices. Net assets of the public sector with the banking system are to increase by Din 40 billion (2.4 percent of projected public sector revenue).

c. Money and credit: the stock of real money (M2) is to remain broadly constant; net domestic assets adjusted for valuation changes on foreign assets and foreign exchange deposits are to grow by 17.5 percent through the year.

d. Interest rates: 40 percent of the gap between present deposit rates and a target real rate is to be closed by May 1, 1984, and the rest in four additional steps by April 1, 1985. The discount rate and other lending rates of the National Bank of Yugoslavia will be adjusted commensurately.

e. Other measures:

(1) Prices: the current price freeze is to be lifted by May 1, 1984 and the share of output free of price control is to be expanded. Railway and electricity tariffs and prices of natural gas, oil, and oil derivatives are to be maintained above certain minimum levels in real terms.

(2) Incomes: the increase in personal income in loss-making enterprises is to be limited to two thirds of the growth in such incomes in the socialized sector as a whole in the republic or province in which the enterprises are domiciled. A similar limitation is to be imposed on illiquid enterprises, except that for these enterprises the permissible growth of personal incomes is to be fixed at one half the growth of personal incomes, calculated on a per employee basis.

(3) Subsidies: payments from Joint Reserve Funds to ailing enterprises are to be limited. Export subsidies, except customs duty drawbacks and payments to agriculture, are to be either eliminated or reduced substantially.

f. Exchange and trade system: the depreciation of the real effective exchange rate since the beginning of 1983 is to be restored to about the 25 percent that had been attained by the end of that year (compared with the present 15 percent) in two steps: one by May 1, and the other by July 1, 1984. Thereafter the real rate is to be kept constant. On the basis of two studies of the foreign exchange allocation system, one by the Yugoslav authorities and another by the Fund staff with the aid of expert consultants representing interested parties inside and outside Yugoslavia, the authorities will discuss with the staff such modifications in the application of the system as may be deemed necessary, and these will be considered by the Fund in the course of the midterm review.

Table 1. Yugoslavia: Selected Economic and Financial Indicators, 1980-84

	1980	1981		1982		1983			1984
	Actual	Program	Actual	Program	Actual	Original program EBS/83/46	Revised Program EBS/83/141	Latest estimates	Staff forecast
			(Annual per cent changes, unless otherwise specified)						
National incomes, prices, and cost:									
GSP at constant prices	2	2	1 1/2	2 1/2	-2	-2 1/2	-2 1/2	-2 1/2	1/2
Final domestic demand	--	--	-4 1/2	-2	-2	-4	-4	-5 1/2	-1/2
GSP deflator	31	20	40 1/2	20	34 1/2	31	35	40	60
Retail prices 1/	39	20	39	15	31	30	36	58 1/2	50
External sector (with convertible currency area)									
Export volume	2 1/2	7	-7	12	-7	8	6	13 1/2	9 1/2
Import volume	-14 1/2	-3	-15	1	-16	-9	-7	-11	5 1/2
Terms of trade (deterioration -)	-1	-5	-1 1/2	--	6	--	--	--	--
Nominal effective change rate (depreciation -) 2/	-30	3/	-23	3/	-30	...	...	-46 1/2	...
Real effective exchange rate (depreciation -) 2/	-10	3/	-2	3/	-15	-24	-30	-25 1/2	1
Federal government									
Total revenue	17	50	51	24	21	24	23	31 1/2	43
Total expenditure	33	28	29	21	18 1/2	25	24 1/2	32	43
Money and credit									
Domestic bank credit 1/ 4/	28	22	23	16 1/2	17	11 3/4	11 1/2	10 3/4	17 1/2
Central bank credit to Central Government 1/	10	5	4	--	-0.5	--	--	--	...
Money (M1) 1/	23	22	27	17	26 1/2	12	11	20	25
Velocity (GSP relative to M1)	8	--	12	2	4	14 1/2	18	13 1/2	28 1/2
Interest rate (annual rate, one year savings deposit)	9	...	9	5/	6/	18 7/	8/	18 9/	10/
			(In per cent of GSP)						
Public sector expenditure	38	37	35	35	33 1/2	34	34	32 1/2	29 1/2
Federal government expenditure	8	9	7 1/2	7	6 1/2	7	7	6 1/2	6
Federal government deficit	1.3	-0.1	0.1	-0.1	-0.1	--	--	--	--
Gross fixed investment	35	32	31	28	29	28	25	25	24
Money (M1); end of period	29 1/2	30	26 1/2	26	25	24	21	22	17
Convertible current account balance	-3 1/2	-2 1/2	-3	-1	-2 1/2	-1	-1 1/2	1/2	1
External convertible currency debt; end of period	28	...	29	...	32	...	...	45	...
			(Other ratios and data)						
External debt service ratio on convertible currencies (in per cent of exports of goods and services)	21	19	24	23	28	34	35	33	35
Interest payments in convertible currencies (in per cent of exports of goods and services)	8	7	12 1/2	12	14 1/2	13	15	13	13
Gross official reserves (weeks of convertible merchandise imports)	12	13 1/2	13	13	10	14	9	10	13
Overall balance of payments with convertible currency area (in millions of U.S. dollars)	-172	-350	-435	-592	-1,575	207	-499	-465	500

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.
8/ The interest rate on one-year deposits of households was to be raised to 24 per cent before the end of 1983.
9/ The interest rate increase to 24 percent was not implemented.
10/ Interest rate will be increased in five steps beginning May 1, 1984 to reach positive real levels by April 1, 1985.

Table 2. Yugoslavia: National Accounts 1/

	1982		1981	1982	1983		1984	
	In billions of dinars	Percent of total			Plan 2/	Preliminary est.	Plan 2/	Staff forecast
			(In 1980 prices; percent change)					
Private consumption	1,510.7	51.5	-1.0	0.5	-6.0	-1.7	0.7	0.9
Public consumption	260.1	8.9	-0.7	-1.6	0.2	-4.0	-1.1	-4.0
Gross fixed investment	854.8	29.2	-10.8	-6.2	-20.0	-12.5	-10.7	-2.7
Final domestic demand	2,625.6	89.6	-4.5	-2.0	-10.0	-5.4	-2.8	-0.7
Stockbuilding 3/ 4/	307.6	10.5	2.9	-0.4	6.9 5/	1.3	2.0 5/	0.7
Total domestic demand	2,933.2	100.1	-1.4	-2.2	-1.8	-3.6	-0.4	0.1
Exports of goods and nonfactor services	710.1	24.2	-1.1	-9.0	8.8	-0.3	12.6	8.2
Imports of goods and nonfactor services	712.6	24.3	-13.2	-9.6	-4.3	-6.0	2.9	5.9
Foreign balance 3/	-2.5	-0.1	3.2	0.2	2.7	1.2	2.4	0.5
Gross social product 1/	2,930.7	100.0	1.8	-1.9	0.9	-2.5	2.0	0.6
Memorandum item:								
GSP deflator			40.4	34.4	20.0	40.2	40.0	60.0

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

1/ GSP estimated by staff as the arithmetic average of demand and production estimates; stockbuilding is a residual. Foreign balance estimated from balance of payments data converted at market exchange rates.
2/ Resolution for the Annual Plan for the year indicated.
3/ Change in percent of preceding year's GSP at constant prices.
4/ Calculated as a residual.
5/ Includes "unallocated consumption," the discrepancy between demand and production estimates.

Table 3. Yugoslavia: Domestic Price Developments

	Weights in 1982	1981	1982	1983	1981	1982	1983				1984	
					Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.
	(In percent)	(Percentage change from one year earlier)										
Industrial producer prices	100.0	44.7	25.0	32.0	37.4	24.7	24.6	27.5	34.3	55.0	60.5	57.9
Investment goods	10.1	25.0	15.8	22.1	18.7	17.9	18.1	19.6	26.7	29.9	38.9	35.6
Intermediate goods	54.0	47.1	27.1	33.9	40.8	26.2	23.7	29.5	38.4	61.4	64.6	64.5
Consumer goods	35.9	42.9	24.8	31.7	38.3	24.6	27.9	26.9	31.0	52.2	59.8	63.9
Retail prices	100.0	46.0	29.5	39.1	39.3	30.7	31.9	34.3	42.8	58.4	60.0	58.2
Of which:												
Agricultural products	5.1	39.2	43.8	44.1	36.0	44.7	47.4	40.4	42.5	54.0	53.1	38.5
Manufactures	79.7	49.4	28.6	39.3	41.5	30.0	30.4	34.8	43.5	59.9	62.8	64.0
Services	9.0	29.2	20.3	29.7	27.0	19.7	21.8	25.6	32.7	50.0	47.1	46.4
Cost of living	100.0	40.7	31.7	40.9	36.2	32.7	35.6	36.6	43.4	60.1	61.2	55.9
Of which:												
Food	42.9	42.9	38.8	44.9	38.0	40.1	42.7	38.8	44.4	63.2	62.5	61.1
Clothing	12.5	37.5	35.2	40.6	37.6	36.1	33.3	38.2	44.1	51.7	55.2	56.6
Rent	2.7	29.9	18.0	34.4	34.6	18.1	21.7	40.1	37.0	45.6	45.6	45.4
GSP deflator	...	40.4	34.4	40.2								

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

Table 4. Yugoslavia: Nominal and Real Net Personal Income per Worker in the Socialized Sector

	Net Personal Income Per Worker				Cost of Living	Real Net Personal Income Per Worker			
	Socialized sector		Of which: Economic sector			Socialized sector		Of which: Economic sector	
	Dinars per month	Percent change 1/	Dinars per month	Percent change 1/	1981=100	1981=100	Percent change 1/	1981=100	Percent change 1/
1978	5,075	20.8	4,913	20.6	45.4	113.5	5.7	111.8	5.5
1979	6,113	20.5	5,928	20.7	54.7	113.4	--	111.9	0.1
1980	7,368	20.[illegible]	7,167	20.9	71.3	105.0	-7.4	104.0	-7.1
1981	9,846	33.[illegible]	9,675	35.0	100.0	100.0	-4.8	100.0	-3.8
1982	12,542	27.[illegible]	12,329	27.4	131.6	96.8	-3.2	96.9	-3.1
1983									
(Jan.-Nov.)	15,527	25.5	15,339	25.9	181.6	86.9	-9.8	87.3	-9.5
1981 Dec.	11,590	34.0	11,277	35.4	111.6	105.5	-1.4	104.4	-0.4
1982 Dec.	14,284	23.2	13,900	23.3	148.2	97.9	-7.2	97.0	-7.2
1983									
1st qtr.	13,703	19.9	13,508	20.4	156.9	88.7	-10.6	89.0	-10.3
2nd qtr.	15,040	22.1	14,802	22.4	173.9	87.8	-10.6	88.0	-10.4
3rd qtr.	16,147	26.1	16,030	26.8	188.8	86.9	-8.7	87.8	-8.2
October	17,620	35.4	17,520	36.6	209.3	85.5	-7.6	86.5	-6.3
November	18,336	35.9	18,009	35.9	221.4	84.1	-10.2	84.1	-10.2

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

1/ Change from corresponding period of preceding year.

Table 5. Yugoslavia: Budget of the Federation

(In billions of dinars)

	1980	1981	1982	1983 Revised budget	1984 Budget
Revenue					
Customs duties and other import fees	20.7	26.2	28.3	44.6	83.8
Contributions from republics and provinces	38.5	63.8	80.4	97.4	130.6
General turnover and sales taxes	47.4	71.3	85.2	112.0	150.1
Other taxes	0.2	0.2	0.3	0.5	0.8
Nontax revenue	2.5	3.3	4.8	7.6	8.7
Total revenue	109.4	164.8	199.0	262.1	374.0
(Percent change)	(16.9)	(50.7)	(20.8)	(31.7)	(42.7)
Expenditure					
Administration	18.6	21.9	26.0	33.2	41.6
Defense	76.1	99.8	118.2	154.6	233.9
Grants to republics and provinces	14.3	16.6	20.8	24.8	29.7
Grants to funds and communities of interest	18.7	24.8	29.8	43.7	60.0
Investment	0.8	0.9	0.4	1.3	1.8
Other or discrepancy	1.2	3.7	1.5	2.6	2.8
Total expenditure	129.7	167.1	196.7	260.2	369.8
(Percent change)	(33.3)	(28.8)	(17.7)	(32.3)	(42.1)
Surplus or deficit	-20.3	-2.3	2.3	1.9	4.2
(As a percentage of GSP)	(-1.3)	(-0.1)	(0.1)	(--)	(0.1)

Source: Data supplied by the Yugoslav authorities.

Table 6. Yugoslavia: Public Sector Revenue

	Revenue for General Consumption: Budgets: Federation	Revenue for General Consumption: Budgets: Republics, provinces	Revenue for General Consumption: Budgets: Local governments	Revenue for General Consumption: Community of Interest for Foreign Economic Relations 1/	Revenue for General Consumption: Other	Revenue for General Consumption: Total 2/	Revenue for Collective Consumption 3/	Total Public Sector Revenue
	(In billions of dinars)							
1979	58.9	68.5	35.8	24.9	3.4	191.5	233.8	425.3
1980	66.9	89.4	44.5	27.7	2.7	231.2	292.0	523.2
1981	95.2	129.3	57.1	33.6	5.6	320.8	386.6	707.4
1982	117.0	151.8	73.6	40.6	8.9	391.8	499.8	891.7
1983	161.2	197.3	87.5	75.0	8.6	529.6	643.0	1,172.6
	(Percentage change from year earlier)							
1980	13.6	30.6	24.3	11.2	-21.6	20.7	24.9	23.0
1981	42.3	44.6	28.3	21.3	107.4	38.7	32.4	35.2
1982	22.9	17.4	28.9	20.9	58.5	22.1	29.3	26.0
1983	37.7	30.0	18.9	84.5	-2.8	35.2	28.6	31.5

Source: Data provided by the Yugoslav authorities.

1/ Revenue comprises customs duties and other taxes on imports; outlays comprise payments to export producers.

2/ Equal to total revenue of sociopolitical communities.

3/ Revenue of communities of interest for collective consumption.

Table 7. Yugoslavia: Public Sector Operations by Level of Government

(In billions of dinars)

	1979	1980	1981	1982	1983 1/
Federal budget					
Revenues	93.6	109.4	164.8	199.0	262.1
Expenditures	97.3	129.7	167.1	196.7	260.2
Of which:					
Transfers to other budgets	(10.5)	(14.3)	(16.0)	(20.7)	(24.3)
Transfers to funds and communities of interest	(15.2)	(18.7)	(24.8)	(38.9)	(55.0)
Surplus or deficit	-3.7	-20.3	-2.3	2.3	--
Budgets of republics and autonomous provinces					
Revenues	50.2	67.3	85.9	101.1	120.3
Of which:					
Grants from other governmental units	(10.5)	(14.3)	(16.0)	(20.7)	(24.3)
Expenditures	50.1	64.6	82.5	96.7	118.3
Of which:					
Transfers to other governmental units 2/	(4.9)	(5.3)	(7.6)	(8.0)	(9.0)
Surplus or deficit	0.1	2.7	3.4	4.4	2.0
Budgets of communes and cities					
Revenues	39.8	49.8	58.5	81.6	97.5
Of which:					
Grants from other governments units	(3.3)	(5.3)	(7.6)	(8.0)	(9.0)
Expenditures	38.5	48.4	57.8	78.1	94.5
Of which:					
Transfers to other governmental units	(...)	(3.0)	(4.0)	(5.0)	(6.0)
Surplus or deficit	1.3	1.4	0.7	3.5	3.0
Social security funds 3/					
Revenues	165.3	209.0	284.2	372.4	476.9
Of which:					
Grants from federal budget	(15.2)	(18.7)	(24.8)	(38.9)	(55.0)
Expenditures	162.4	208.2	276.7	367.2	472.9
Surplus or deficit	2.9	0.8	7.5	5.2	4.0
Funds and interest communities 4/					
Revenues	152.5	193.4	257.1	323.4	433.8
Of which:					
Grants from federal budget	(1.6)	(3.0)	(4.0)	(5.0)	(6.0)
Expenditures	152.1	188.7	254.7	321.2	430.8
Surplus or deficit	0.3	4.7	2.4	2.2	3.0
Consolidated public sector 5/					
Revenues	470.7	587.6	797.8	1,004.9	1,296.3
Expenditures	469.8	598.3	786.1	987.3	1,292.4
Surplus or deficit	0.9	-10.7	11.7	17.6	3.9
Financing					
Domestic, net	-0.9	10.7	-11.7	-17.6	-3.9

Source: Data provided by the Yugoslav authorities.

1/ Preliminary.

2/ Not including agreed contributions to the federal budget.

3/ Including communities for child protection and health, pension, and invalid insurance.

4/ Excluding social security funds above and the Fund for the Development of Underdeveloped Regions. Data on these funds and interest communities are estimated by treating them as a residual using data on the consolidated public sector, grants, and transfers, and on expenditures and revenues of other levels of government.

5/ Exclusive of grants and transfers among governmental units.

Table 8. Yugoslavia: Monetary Survey

(In billions of dinars)

	1980	1981	1982				1983			
	Dec.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.
Money supply (M1)	461.6	584.3	593.8	616.3	664.9	739.8	747.3	764.4	833.6	888.6
Quasi-money	768.7	1,030.0	1,118.7	1,157.1	1,210.0	1,386.7	1,568.5	1,677.7	1,808.0	2,038.7
Of which:										
Foreign exchange deposits	(318.7)	(466.6)	(517.7)	(523.5)	(544.1)	(671.7)	(821.7)	(917.5)	(1,069.5)	(1,250.5)
Broad money (M2)	1,230.3	1,614.3	1,712.5	1,773.4	1,874.9	2,126.5	2,315.8	2,442.1	2,641.6	2,927.3
Net foreign assets	-254.3	-375.1	-415.5	-436.1	-468.9	-587.9	-688.6	-856.6	-1,003.8	-1,201.6
Net domestic assets	1,484.8	1,989.4	2,128.0	2,209.5	2,343.8	2,714.4	3,004.4	3,298.7	3,645.4	4,128.9
Other items, net	-83.5	61.6	115.0	102.3	132.7	345.2	486.0	645.6	814.1	1,012.6
Domestic credit	1,568.3	1,927.8	2,013.0	2,108.3	2,211.1	2,369.2	2,518.4	2,653.1	2,831.3	3,116.3
	(Percentage change from previous year)									
Memorandum items:										
M1	23.0	26.6	24.5	21.8	21.9	26.6	25.9	24.0	25.4	20.1
M2	33.6	26.6	33.1	30.7	27.7	31.7	35.2	37.7	40.9	37.7

Source: National Bank of Yugoslavia.

Table 9. Yugoslavia: Actual and Projected Net Domestic Assets of the Banking System

(In billions of dinars)

	1982 December	1983 June	1983 Sept.	1983 Dec.	1984 June	1984 Sept.	1984 Dec.
	Actual				Proposed Program		
1. Net foreign liabilities 1/	1,182	1,190	1,158	1,202	1,252	1,252	1,252
2. Broad money (M2) 1/ 2/	2,640	2,628	2,627	2,740	2,990	3,158	3,381
Of which:							
Foreign exchange deposits 1/	(1,351)	(1,275)	(1,234)	(1,251)	(1,251)	(1,251)	(1,251)
3. = 1+2 Net domestic assets 1/	3,822	3,818	3,785	3,942	4,242	4,410	4,633
4. Other items, net 1/	1,328	1,168	1,096	1,017	1,017	1,017	1,017
5. = 3-4 Domestic credit 1/	2,494	2,650	2,689	2,925	3,225	3,393	3,616
6. Foreign exchange credits 1/	579	602	620	671	713	734	755
7. = 5-6 Dinar credits, total	1,915	2,048	2,069	2,254	2,512	2,659	2,861
8. Net credit to the public sector	-32	-38	-52	-57	-60	-85	-97
9. = 7-8 Dinar credits to the private sector	1,947	2,086	2,121	2,311	2,572	2,744	2,958
	(Percentage change from previous year)						
Memorandum items:							
M2 1/ 2/	...	...	...	3.8	13.8	20.2	23.4
Net domestic assets 1/	...	...	...	3.1	11.1	16.5	17.5
Dinar credits, total	...	...	...	17.7	22.7	28.5	26.9
Dinar credits to the private sector	...	...	...	18.7	23.3	29.4	28.0

Sources: National Bank of Yugoslavia; and staff estimates.

1/ Adjusted for exchange rate changes.
2/ The definition of M2 in the program differs from the Yugoslav definition shown in Table .. as public sector deposits are excluded.

Table 10. Yugoslavia: Selected Interest Rates

(In percent)

	1978	1979	1980	1981	1982		1983	
					June	Oct.	Feb.	July
Central Bank interest rates								
Official discount rate and liquidity credits 1/	6	6	6	6	12	14	22	30
Selective credits 2/	1-6	1-6	1-6	1-6	4-8	4-9	8-12	18-22
Commercial bank interest rates								
Deposit rates								
Sight deposits of OALs 3/	--	--	--	--	1	1	4	4
Dinar deposits of households								
Sight	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
3 months	...	...	...	...	...	...	12	12
6 months	...	...	...	...	...	...	15	15
Long term 4/	9-10	9-10	9-10	9-10	11-15	13-20	18-28	18-28
Foreign currency deposits of households 5/								
Sight	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Long term 4/	9-10	9-10	9-10	9-10	9-10	9-12.5	9-12.5	9-12.5
Lending rates								
Short-term credits	7.5-11.5	8.5-11.5	9-12	9-12	9-16	9-21	32	30-38
Long term credits	7.5-11	7.5-11	7-12	7-12	9-18	11-21	30-32	30-38

Source: National Bank of Yugoslavia.

1/ The rate on liquidity credits was 8 percent for the period 1978-81.
2/ Credits for exports, agriculture, and imports.
3/ Organizations of Associated Labor.
4/ Lower rate for 1-year deposit; higher rate for 3-year deposit.
5/ No interest is paid on foreign exchange deposits of OALs.

Table 11. Yugoslavia: Quantitative Performance Criteria, 1983

	Credit Ceilings			
	Net domestic assets of the banking system		Credit from the National Bank of Yugoslavia to the Budget of the Federation	
	Limit	Actual	Limit	Actual
	(In billions of dinars)			
1983				
January-March 1/	2,758	2,750	--	--
April-June 1/	2,824	2,814	--	--
July-September 1/	2,927	2,858	--	--
September 2/	2,947	2,844	--	--
October-December 1/	2,998	2,907	--	--
December 2/	3,021	3,005	--	--

	Contracting of New Foreign Loans During 1983	
	Limit	Actual
	(In billions of U.S. dollars)	
With maturities of more than 1 year and up to and including 10 years	1.5	0.5
With maturities of more than 1 year and up to and including 3 years	0.5	0.3

Sources: Yugoslav authorities; and IMF staff.

1/ Average of end-of month data.
2/ End month data.

Table 12. Yugoslavia: Quantitative Performance Criteria, 1984

	Credit Ceilings	
	Net domestic assets of the banking system	Net asset position of the public sector with the banking system
	Limit	Floor
	(In billions of dinars)	
1984		
January-June 1/	4,117	...
June 2/	4,239	60
July-September 1/	4,378	...
September 2/	4,410	85
October-December 1/	4,570	...
December 2/	4,633	97

	External Reserves of the Banking System 2/
	Limit
	(In millions of U.S. dollars)
1984	
June	1,500
September	1,800
December	2,122

	Disbursements on Loans in 1984
	Limit
	(In billions of U.S. dollars)
With original maturities of more than 1 year and up to and including 12 years	3.5
With original maturities of more than 1 year and up to and including 5 years	1.8
Short-term credits with an original maturity of up to and including 1 year	0.5

Sources: Yugoslav authorities; and IMF staff.

1/ Average of end-of month data.
2/ End month data.

Table 13. Yugoslavia: Overall Balance of Payments, 1981-84

(In millions of U.S. dollars)

	1981	1982	1983	1984
Exports, f.o.b.	10,205	9,923	9,914	10,950
Percentage change in volume	4.7	-6.2	--	8.3
Percentage change in unit values	8.6	3.7	--	2.0
Imports, c.i.f.	14,528	12,810	12,154	12,900
Percentage change in volume	-12.6	-10.0	-5.1	4.1
Percentage change in unit values	10.4	-2.2	--	2.0
Trade balance	-4,323	-2,887	-2,240	-1,950
Nonfactor services, credit	4,845	3,672	3,577	3,905
Nonfactor services, debit 1/	4,439	4,171	2,894	3,025
Nonfactor services (net)	406	-499	683	880
Balance on exports of goods and nonfactor services	-3,917	-3,386	-1,557	-1,070
Workers' remittances	4,592	4,493	3,363	3,320
Interest payments (net)	-1,621	-1,731	-1,532	-1,700
Current account balance	-946	-624	274	550
Medium- and long-term capital (net)	548	-187	1,181	250
Short-term capital, including errors and omissions	740	41	-2,164	-250
Bilateral balances (surplus -)	-776	-805	244	-50
Overall balance	-434	-1,575	-465	500
Use of Fund resources	672	563	410	10
Change in reserves	-238	1,012	55	-510

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

1/ Including outflow under workers' remittances.

Table 14. Yugoslavia: Balance of Payments with the Convertible Currency Area, 1981-84 1/

(In millions of U.S. dollars)

	1981	1982	1983 Program	1983 Revised estimate	1984 Staff proj.
Exports, f.o.b.	5,720	5,526	6,300	6,271	7,000
Volume (percentage change) 3/	-6.9	-6.8	8.0	13.6	9.4
Unit value (percentage change)	8.6	3.7	...	--	2.0
Imports, c.i.f.	10,600	9,069	8,600	8,069	8,700
Volume (percentage change) 3/	-15.2	-16.3	-9.0	-11.0	5.7
Unit value (percentage change)	10.4	-2.2	...	--	2.0
Trade balance	-4,880	-3,543	-2,300	-1,798	-1,700
Services (net)	3,059	1,941	1,800	2,097	2,200
Workers' remittances	2,077	1,663	...	1,610	1,550
Tourism	1,195	704	...	875	1,000
Interest payments	-1,590	-1,692	...	-1,489	-1,650
Other	1,377	1,266	...	1,101	1,300
Current balance	-1,821	-1,602	-500	299	500
Medium- and long-term capital	583	-126	707	1,140	250
Loans received (net)	818	51	907	1,297	450
Drawings	(2,513)	(1,815)	(3,750)	(3,660)	(3,195)
Repayments	(-1,695)	(-1,764)	(-2,843)	(-2,363)	(-2,745)
Loans extended (net)	-235	-177	-200	-157	-200
Short-term capital through the banking system	167	-506	--	-670	--
Other short-term capital, errors and omissions	636 2/	659	--	-1,234	-250
Overall balance	-435	-1,575	207	-465	500
Use of Fund credit	672	563	421	410	10
Purchases	760	608	606	590	293
Repurchases	88	45	185	180	283
Reserve movements (increase -)	-237	1,012	-628	55	-510

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

1/ Calculated on the basis of statistical exchange rates of currencies to the U.S. dollar which may result in significant over- or underestimation of balance of payments flows, depending on currency composition and actual movement of currencies against the dollar. Staff calculations suggest that trade flows are underestimated by some 2 percent in 1982 and may be overestimated by a similar amount in 1983.

2/ Including allocation of SDRs of US$38 million.

3/ Official estimates of volume and unit values are only calculated for total trade flows. The volume changes for trade with the convertible currency area have been estimated on the basis of official unit values for total trade.

Table 15. Yugoslavia: Balance of Payments with the Nonconvertible Currency Area, 1981-84

(In millions of U.S. dollars)

	1981	1982	1983	1984 1/
Exports, f.o.b.	4,485	4,397	3,643	3,950
Imports, c.i.f.	3,928	3,741	4,085	4,200
Trade balance	557	656	-442	-250
Services (net)	318	322	417	300
Current account	875	978	-25	50
Capital movements	-35	-61	41	--
Errors and omissions	-64	-112	-260	--
Total	776	805	-244	50
Bilateral balance (surplus -)	-776	-805	244	-50

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

1/ Staff projection.

Table 16. Yugoslavia: Drawings on Medium- and Long-term Debt in Convertible Currency by Creditor

(In millions of U.S. dollars)

	1983 Estimate	1984 Projection
Government packages	796	1,240
Berne	796	390
Refinancing	(304)	(3)
New financial credits	(132)	(40)
Suppliers' credits	(360)	(347)
Geneva	...	850
Refinancing	(...)	(700)
Suppliers' credits	(...)	(150)
Commercial bank package	1,550	1,200
Refinancing	950	1,100
New financing	600	100
IBRD	280	505
Regular facilities	260	250
SAL	20	255
Other multilateral lenders: IFC, EIB and Eurofima	60	50
Suppliers' credits outside Government packages	974	200
Subtotal	3,660	3,195
IMF	590	293 1/
Total	4,250	3,488

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

1/ Total projected purchases under the stand-by arrangement are equivalent to SDR 370 million, but the final purchase from the Fund will not take place until February 1985.

Table 17. Yugoslavia: External Debt Disbursed and Outstanding

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

	1979	1980	1981	1982	1983 1/
Repayable in convertible currency	13,680	17,608	18,337	18,488	19,525
Medium- and long-term	12,812	15,558	16,025	16,678	18,385
Public- and publicly-guaranteed	3,530	4,697	5,957	6,380	8,984
IMF	456	760	1,252	1,754	2,068
IBRD	1,143	1,359	1,483	1,576	1,716
Other	1,931	2,578	3,222	3,050	5,200
Private	9,282	10,861	10,068	10,298	9,401
Commercial banks	5,120	6,110	6,350	6,040	...
Other	4,162	4,751	3,718	4,258	...
Short-term	868	2,050	2,312	1,810	1,140
Repayable in bilateral currencies	1,490	1,542	1,531	1,528	1,569
Total debt	15,170	19,150	19,868	20,016	21,094

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

1/ Staff estimates based on official estimates as of end-September 1983.

Table 18. Yugoslavia: External Reserves

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

	National Bank of Yugoslavia: Official Reserves					Foreign Assets of Deposit Banks	Total
	Reserve position in the Fund	SDRs	Gold 1/	Foreign exchange	Total		
1976	--	10	62	1,980	2,052	658	2,710
1977	--	13	64	2,031	2,108	666	2,774
1978	81	20	69	2,288	2,457	783	3,245
1979	--	54	73	1,203	1,330	638	1,968
1980	--	13	78	1,371	1,462	1,102	2,567
1981							
1st quarter	--	22	78	1,408	1,508	1,130	2,638
2nd quarter	--	21	78	1,415	1,504	987	2,501
3rd quarter	--	33	78	1,435	1,546	1,044	2,590
4th quarter	--	84	78	1,540	1,702	985	2,687
1982							
1st quarter	--	37	78	1,038	1,157	821	1,978
2nd quarter	--	25	78	819	925	851	1,776
3rd quarter	--	--	78	846	927	760	1,687
4th quarter	3	--	78	771	850	825	1,675
1983							
1st quarter	--	--	78	769	843	828	1,671
2nd quarter	--	--	78	858	936 2/	808	1,744 2/
3rd quarter	--	--	78	975	1,053 2/	644	1,697 2/
4th quarter	55	--	78	922	1,055	567	1,622
1984							
January	--	12	78	830	920	566	1,488
February	--	--	78	862	940	577	1,517

Source: Data provided by the Yugoslav authorities.

1/ Value at US$42.22 per ounce.
2/ Including BIS credits.

Office Memorandum

March 30, 1984

MEMORANDUM FOR FILES

Subject: Yugoslavia--Conversation with Dobrich

I called Fulvio Dobrich of Manufacturers Hanover Trust today on the following three points:

1. He said the ICC needed a telex from the MD by May 25, 1984 confirming that Yugoslavia had a valid stand-by arrangement with the Fund.

2. He said that of the two Singapore banks that had exposure in Yugoslavia, one had made arrangements with its debtor parallel to those of the ICC in 1983, the other had been left out in the cold so far but was expected to do the same soon; as for 1984 it was hoped that both would come in under the ICC umbrella as no new money was involved.

3. We arranged that Dobrich, Brainard and a few other bankers would come down on April 25, 1984 to lunch with Mr. Whittome, myself and other team members; he would let us know the number of bankers who would come.

4. On a subsequent call the date for the lunch was changed to May 10, 1984.

cc: HOS
I may then be away & so may [illegible] JB. pl ensure that BR has the necessary draft before you leave for Germany.

Lynne, pl book a large pte dining room — I would expect them to number about 6 to 8 & me ? about the same number.

Hans Schmitt

cc: Mr. Whittome
CED

Mr. Whittome

Office Memorandum

March 30, 1984

To: Mr. Whittome
Mr. Schmitt
Mrs. Junz
Mr. Mentré
Mr. Hansen
Mr. Lewis
Mr. Manison

cc: JB
When you have collected the suggestions of others pl have a word with me. Ms Mudd - if we get her - will have a list of contacts

From: Jack Boorman

Subject: Yugoslavia - Foreign Exchange Study

In preparation for the missions associated with the above-captioned study, I would like to request your advice about people to visit in Yugoslavia. We intend to request meetings both with officials and with bankers/enterprise managers and both in Belgrade and in the regions. It would be most helpful if we could benefit from your past experience in identifying people/banks/enterprises that are likely to be forthcoming and helpful in our efforts to understand how the allocation system works in practice. In particular, if you have been in contact with people whom you think will talk informally and candidly on the subject and/or people who are more facile and relaxed in English, we would benefit by knowing of them in advance of making our mission arrangements.

I greatly appreciate your assistance in this matter.

cc: Mr. Petersen
Mr. Brodsky

Mr. Whittome

Office Memorandum

March 29, 1984

MEMORANDUM FOR FILES

Subject: Yugoslavia--Intergovernmental Meeting

On March 24, an intergovernmental meeting on Yugoslavia was held in Geneva under the chairmanship of Under-Secretary Probst. A list of participants, the agenda, and the chairman's summing up are attached.

There were preparatory meetings in Berne (a lunch between Mr. Smole, Mr. Ajanovic, and myself; and a meeting between Mr. Probst, his assistants, Mr. Whittome, Mr. Schmitt, and myself) and in Geneva, (a breakfast attended by Mr. Smole, Mr. Ajanovic, Mr. Dujmovic, Mr. Korosec, Mr. Whittome, Mr. Guetta, Mr. Schmitt, and myself). From these preparatory meetings it appeared that the Yugoslavs had three major political preoccupations: to reach positive decisions in Geneva as a counterpart to the adjustment efforts agreed upon; to avoid procedures too much similar to Paris Club procedures; and to avoid any reference to parallel treatment of non-OECD countries. 1/

Based on contacts through Swiss Embassies in major countries, Mr. Probst wanted above all to avoid any attempt to have a pledging session. The salient points of the Geneva meeting were as follows, in the order of the agenda.

1. Reports of Group 1 and Group 2. The Yugoslavs finally concurred with the idea that the final agreement on debt refinancing will be reflected in minutes to be signed in Paris (date presently contemplated May 2) and were satisfied with the positive wording of the summing up.

2. Fund program. Mr. Whittome and Mr. Schmitt made a presentation of the program stressing two uncertainties: the inflation rate and foreign exchange cash transactions (errors and omissions).

There were questions raised on inflation, exports, and foreign exchange allocation. It was agreed that the concern of creditors on the Yugoslav foreign exchange allocation system will be brought to the attention of the Yugoslav authorities by a specific letter from Mr. Probst to Mr. Smole.

3. Medium-term outlook. The subject was introduced by Mr. Whittome and Mr. Kaps (World Bank). The only question raised was by the German delegation about the reference in a table to a 1985 refinancing. Mr. Whittome mentioned that in the Board documentation there was reference to various possible medium-term scenarios.

1/ This last issue was finally not raised in the Geneva meeting but might be in Paris. It had been agreed with the Yugoslavs that they would have mentioned that they were aiming at current account balance and no net repayment in capital with the nonconvertible area in 1984 and that repayments to oil producing countries would be included in the refinancing agreement with commercial banks.

4. Non-governmental flows.

(a) World Bank. Mr. Kaps gave participants a set of documents on projects eligible for cofinancing by governments and commercial banks and also mentioned the IFC.

(b) EIB. Mr. Jurgensen and myself described the present status of EIB interventions in Yugoslavia. 1/ I mentioned cofinancing.

(c) Commercial banks. Mr. Smole and myself described the present situation and contemplated timetable. I mentioned that the standstill had been extended by commercial banks until June 30 and that parallel treatment will be applied to governmental claims. 2/ Mr. Smole insisted on this, with special reference to the absence of penalties.

5. Governmental flows. Mr. Smole mentioned the need to obtain confirmation of the carryover into 1984 of the unused portion of the 1983 Berne credits and said that among new credits, medium-term credits for raw materials and spare goods would be extremely helpful. Mr. Probst then asked participants to express the positions of individual creditor governments on export credits. These positions are reflected in an annex. With the possible exception of Japan, all governments said that they remained open on export credits to Yugoslavia, agreed to the carryover and stood ready to have further discussions bilaterally with the Yugoslavs.

In the drafting session it was not possible, however, to maintain specific references to the continuation of short-term credits and to possible medium-term credits for non-equipment goods. On the magnitude of export credits contemplated in the Fund program, those countries who addressed the issue, notably the United States and France, mentioned that Fund figures appeared to be on the conservative side. The reference in the summing up to the financial projections in the IMF program could provide a basis for a new assessment if present anticipations were not materializing.

P. M.

Paul Mentré

Attachments (4)

cc: Mr. Whittome
Mr. Schmitt
Mr. Boorman
Mr. Hansen
Mr. Petersen

Final

03/24/1984

List of Participants

Presidency:

Mr. Raymond PROBST, Secrétaire d'Etat
Directeur de la Direction politique
Département fédéral des affaires étrangères

Mr. Jacques FAILLETTAZ, Ministre
Chef du Service économique et financier
Département fédéral des affaires étrangères

Mr. Eric PFISTER
Chef adjoint du Service économique et financier
Département fédéral des affaires étrangères

Mr. André FAIVET
Chef adjoint du Service économique et financier
Département fédéral des affaires étrangères

Mr. Markus PETER, Collaborateur diplomatique
Service économique et financier
Département fédéral des affaires étrangères

Mr. Paul FIVAT, Collaborateur diplomatique
Service économique et financier
Département fédéral des affaires étrangères

Mr. Hans-Rudolf HODEL, Collaborateur diplomatique
Service économique et financier
Département fédéral des affaires étrangères

Mr. Enrico HOMBERGER, Assistant consulaire
Service économique et financier
Département fédéral des affaires étrangères

Austria:

Ms. Friederike WEISSBACHER, Oberrat
Directeur adjoint
Division pour la promotion et le financement
des exportations
Ministère des Finances

Mr. Günter BIRBAUM, Ministre
Représentant permanent adjoint à la Mission
permanente de l'Autriche auprès de l'Office
des Nations Unies à Genève

Belgium:	Mr. Pierre KNAEPEN, Conseiller Office national du Ducroire
Canada:	Mr. John COLEMAN, Director International Programs Division Department of Finance
	Mr. Laurence BROWN, Aera Economist Country Assessment Department Export Development Corporation
	Mr. Donald P. McLENNAN, Counsellor Canadian Embassy Berne
	Mr. Ross GLASGOW International Financial and Investment Affairs Division Department of External Affairs
Denmark:	Mr. Carl Johan LIEBE, Head of Division Commercial Department Ministry of Foreign Affairs
	Mr. Palle Brix KNUDSEN, Head of Division Export Credit Council Ministry of Industry
Finland:	Mr. Erik HAGFORS, Assistant Director Trade Policy Department Ministry of Foreign Affairs

France:	Mr. Philippe JURGENSEN, Directeur adjoint Chef du Service des affaires internationales Direction du trésor Ministère de l'économie, des finances et du budget
	Mr. Pierre de LAUZUN, Chef de bureau Service des affaires internationales Direction du trésor Ministère de l'économie, des finances et du budget
	Mr. Dominique BAZY, Secrétaire des affaires étrangères Affaires économiques et financières Ministère de l'économie, des finances et du budget
Germany:	Mr. Jürgen KUEHN, Ministerialdirigent Chef de la subdivision des affaires économiques extérieures multilatérales Ministère de l'économie
	Mr. Gehrhard HENZE, Vortragender Legationsrat I Referatsleiter Ministère des affaires étrangères
	Mr. Malte EHRIG, Regierungsdirektor Referatsleiter Ministère des finances
	Mr. Michael von KORFF, Referent Ministère de l'économie
Italy:	Mr. Giovanni MINGAZZINI, Conseiller Chef de l'office II, Direction générale des affaires économiques Ministère des affaires étrangères
	Mr. Mario GERBINO, Premier Dirigeant, Chef adjoint du Cabinet du Ministre du commerce extérieur
	Mr. Fernando CARPENTIERI, Directeur de section Ministère du trésor

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Japan:	Mr. Yuji NAKAMURA, Directeur Division Europe orientale Ministère des Affaires Etrangères
	Mr. Akio HANANO, Conseiller Ambassade du Japon, Berne
	Mr. Kozo FUKUMOTO, Deuxième Secrétaire Ambassade du Japon, Belgrade
Kuwait:	Mr. Ibrahim SALLOUM, Manager Kuwait Foreign Trading Contracting and Investment Company
	Mr. Ahmad ABDUL QADER MOHAMAD, Kuwait Foreign Trading Contracting and Investment Company
Netherlands:	Mr. J. LINTJER, Principal Administrator Directorate Export Credit Insurance Ministry of Finance
	Mr. J.M. CORIJN, Principal Administrator Directorate for economic cooperation Ministry of Foreign Affairs
	Mr. H.F. de JONG, Collaborator Directorate Foreign Financial Relations Ministry of Finance
	Mr. H.M. van LEUVEN, Netherlands Credit-Insurance Company, Amsterdam
Norway:	Mr. Nils STAVA, Chef de section Section questions bilatérales et coordination Direction des affaires économiques Ministère des affaires étrangères
	Mr. Rolf NAESS, Chef de division Ministère du commerce

Sweden:	Mr. Ulf DINKELSPIEL, Ambassadeur Ministère des affaires étrangères
	Mr. Rutger PALMSTIERNA, Chef de section Section consolidation des dettes et garantie des crédits à l'exportation Secrétariat d'état au commerce Ministère des affaires étrangères
	Mr. Lennart SKARP Chief Country Policy Adviser for EKN
Switzerland:	Mr. Benedikt von TSCHARNER, Ambassadeur Délégué aux accords commerciaux Office fédéral des affaires économiques extérieures Département fédéral de l'économie publique
	Mr. Hans ITH Chef de la Section monnaie et économie Département fédéral des finances
	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. Peter MOUNTFIELD, Under Secretary Treasury
	Mr. Andrew LANCE Eastern European and Soviet Department Foreign and Commonwealth Office
	Ms. Eileen HARDING, Assistant Secretary Export Credits Guarantee Department
	Mr. Cyril DURNING Export Credits Guarantee Department
	Mr. Frank HALL, Adviser Bank of England

United States of America:	Ms. Elinor G. CONSTABLE, Senior Deputy Assistant Secretary Economic and Business Affairs State Department
	Mr. James G. WALLAR, Financial Attaché Embassy of the United States, Berne
Yugoslavia:	Mr. Janko SMOLE Member of the Federal Executive Council
	Mr. Tarik AJANOVIC, Assistant to the Federal Secretary of Foreign Affairs
	Mr. Cvitan DUJMOVIC, Assistant to the Federal Secretary of Finance
	Mr. Joze KOROSEC, Vice-Governor National Bank of Yugoslavia
	Mr. Sulejman REDZEPAGIC, Ambassador Embassy of Yugoslavia, Berne
	Mr. Kazimir VIDAS, Ambassador to the United Nations in Geneva
	Mr. Miodrag VUJOVIC Senior Adviser to Mr. Janko Smole
	Mr. Dinko TAJMIN. First Councellor Embassy of Yugoslavia, Berne
IMF:	Mr. Alan WHITTOME, Director European Department
	Mr. Hans SCHMITT, Senior adviser European Department
	Mr. Paul MENTRE DE LOYE, Consultant European Department
	Mr. Aldo GUETTA, Director Office in Europe
IBRD:	Mr. Franz H. KAPS, Senior Loan Officer

Meeting of the Coordinating Group on Yugoslavia

Draft Annotated Agenda

1. Report on discussions held in the two working groups
(Paris meetings, January 11 and 12, 1984)

   a. Group 1 (debt issues) : refinancing of medium - and long-term maturities guaranteed by or falling due to governments in 1984, contemplated timetable (representatives of France)

   b. Group 2 : carryover into 1984 of the 1983 Berne package, assessment of Yugoslavia's balance of payments and reserve needs (Fund representatives)

2. Status of negotiations between the Fund and Yugoslavia
(Yugoslav and Fund representatives)

   a. Balance of payments 1984

   b. Recent economic developments and outlook for 1984

   c. Letter of intent

   d. Timetable contemplated for Board action

3. Medium-term prospects
(Yugoslavia, Fund, and World Bank representatives)

   a. Medium-term outlook

   b. Impact of the adjustment on enterprises and sectors, investment priorities

   c. Management of external finance and of foreign debt

4. Non-governmental financial flows

   a. World Bank lending, including possible cofinancing with commercial banks (Yugoslav and World Bank representatives)

   b. Lending by European institutions including possible cofinancing with commercial banks (Yugoslav and representatives of EC countries)

   c. Status of discussion with commercial banks : refinancing of medium- and long-term maturities falling due to banks in 1984, additional flows, short-term credits (Yugoslav representatives and IMF)

5. <u>Export credits</u>
(Governments' representatives)

- maintenance or expansion of existing short-term credit lines or guarantees in 1984

- projections of medium- and long-term export credits for Yugoslavia in 1984, beyond the carryover of the Berne package, with the following breakdown :

  a. Capital goods :

    (i) export credits under arrangements signed prior to the Berne agreement

    (ii) export credits under arrangements signed in 1983

    (iii) export credits under arrangements to be signed in 1984

  b. Commodities

  c. Intermediate goods, raw materials, spare parts

  These projections and possible terms and conditions should be discussed in relation with balance of payments prospects.

FINAL

CHAIRMAN'S SUMMING UP

1. Representatives of Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Italy, Japan, Kuwait, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States met in Geneva on March 24, 1984 under the chairmanship of State Secretary Raymond Probst. The Yugoslav delegation was led by Mr. Janko Smole, member of the Federal Executive Council. Representatives of the International Monetary Fund and the World Bank also attended the meeting. The meeting reviewed economic developments in Yugoslavia. Co-operating Governments confirmed their readiness to act in support of the efforts of the Yugoslav authorities aiming at further improvement of the balance of payments and reserve situation.

2. Participants were encouraged by the success of the stabilisation effort of Yugoslavia and in particular by the evolution of the trade balance with the convertible currency area in 1983 and the first two months of 1984. They welcomed the additional measures contemplated in 1984 and embodied in a proposed stand-by arrangement with the IMF, which has been submitted to the Executive Directors of the IMF for decision before the end of April. They considered that the progress made in improving the performance of the economy and the

further steps now being taken should lead to a rapid return to normal trade and credit relations.

3. Participants noted the proposed arrangements between Yugoslavia and foreign commercial banks. After reviewing experience under the Berne agreement, they confirmed their willingness, as soon as final approval of the stand-by arrangement for 1984 has been given by the Board of the IMF, to restructure for a 7 year period, including a 4 year grace period, 100 percent of maturities of principal falling due in 1984. This restructuring will apply to credits extended by Governments or guaranteed by them, having an original maturity of more than one year, pursuant to contracts conluded before December 2nd, 1982. The Yugoslav authorities confirmed that interest due and all non-consolidated maturities will be paid on due dates.

4. Participants welcomed the intentions expressed about the availability, in present circumstances, of guarantees and export credits during 1984. These included continued short-term cover, medium and long-term credits under agreements made before the Berne package (where applicable), the undisbursed portions of the Berne commitments, and any new credits available. Participants were satisfied that the sums in prospect, together with the other forms of assistance discussed at the meeting, were sufficient to provide the balance of payments financing envisaged in the projections which underlay the proposed IMF programme.

5. Participants supported the preparedness of the World Bank and other multilateral organisations to involve foreign Governments and commercial banks in various forms of co-financing of high priority projects sponsored by these organisations in Yugoslavia as a means of providing additional foreign funding to Yugoslavia.

ANNEX

Position of Individual Governments on Export Credits

Austria	- open on all types of export credits.
Belgium	- open on short-term; a decision to be taken soon on medium-term credits for capital goods. The carryover of $3 million in the refinancing agreement of 1983 will be applied to the refinancing agreement of 1984.
Canada	- a full use of Berne credits contemplated in 1984.
Denmark	- in addition to the unused portion of the Berne credit, open on short-term credits (revolving facility of $3 million which could be increased to $4 million).
Finland	- open on short-term; $10 million contemplated in 1984 for medium-term credit on capital goods.
France	- Berne credit should be soon totally committed, but effective disbursement remains slow; COFACE open on all kinds of credits.
Germany	- Berne credit now fully used, an example to be followed by other countries; open on short-term credits, reviewing policy on medium-term
Italy	- interested by reference to joint ventures, a point mentioned by other participants; no restriction on short-term. Berne credit should be fully used in 1984; medium-term credits available under old credit lines amounting to $110 million.
Japan	- position under review; Berne package still useable in 1984.
Netherlands	- $20 million still uncommitted under Berne; position on new credits will be assessed after total use of Berne credits.
Norway	- effective use of Berne credits quite limited.
Sweden	- difficulties to conclude the agreement on the Berne credits likely to be overcome in the coming weeks.

...../2

Switzerland	- open on short-term and medium-term credits--$5-6 million already contemplated under Berne and full use contemplated in 1984; medium-term credits for capital goods approved for SwF 400 million.
United Kingdom	- £ 110 million still available on medium-term pre-Berne credits.
United States	- Ex-Im Bank open on short-term and medium-term credits. CCC ready to grant new credits (privately the figure of $125 million in 1984 was confirmed).

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WASHINGTON, D. C. 20431

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MR. FAILLETTAZ

SWISS MINISTRY OF FOREIGN AFFAIRS

BERNE, SWITZERLAND

DISPATCHED IMF
1984 MAR 29 PM 10 10

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PURSUANT TO MY DISCUSSION WITH YOUR ASSOCIATE, I HAVE CONTACTED MR. DOBRICH WHO WILL SEND YOU SHORTLY A TELEX STATING THAT THE STANDSTILL HAS BEEN EXTENDED BY COMMERCIAL BANKS.

REGARDS,

PAUL MENTRE

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MR. HARTWICH

EUROPEAN INVESTMENT BANK

LUXEMBOURG

DISPATCHED 1984 MAR 29

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PURSUANT TO MY VISIT TO LUXEMBOURG AND OUR TELEPHONE CONVERSATION YOU WILL FIND HERE ATTACHED THE SUMMING UP OF INTERGOVERNMENTAL MEETING ON YUGOSLAVIA HELD IN GENEVA ON MARCH 24. THE SPECIFIC REFERENCE TO POSSIBLE COFINANCING IS INCLUDED IN PARAGRARH55.

AS YOU KNOW, THE REFINANCING EXERCISE BY COMMERCIAL BANKS IS STEERED BY THE INTERNATIONAL COORDINATING COMMITTEE (ICC) CHAIRED BY MANUFACTURERS HANOVER. THE ICC EUROPEAN MEMBERS ARE BARCLAYS BANK, SOCIETE GENERALE (FRANCE), WESTDEUTSCHE LANDESBANK GIROZENTRALE, INSTITUTO BANCARIO SAN PAOLO DI TORINO, CREDITANSTALT-BANKVEREIN, AND SWISS BANK CORPORATION, BUT OBVIOUSLY ALL OTHER MAJOR EUROPEAN BANKS ARE ALSO ACTIVE PARTICIPANTS IN BANKING RELATIONS WITH YUGOSLAVIA.

QUOTE. CHAIRMAN'S SUMMING UP

1. REPRESENTATIVES OF AUSTRIA, BELGIUM, CANADA, DENMARK, FINLAND, FRANCE, FEDERAL REPUBLIC OF GERMANY, ITALY, JAPAN, KUWAIT, THE NETHERLANDS, NORWAY, SWEDEN, SWITZERLAND, THE

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MR. HARTWICH

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UNITED KINGDOM, AND THE UNITED STATES MET IN GENEVA ON MARCH 24, 1984 UNDER THE CHAIRMANSHIP OF STATE SECRETARY RAYMOND PROBST. THE YUGOSLAV DELEGATION WAS LED BY MR. JANKO SMOLE, MEMBER OF THE FEDERAL EXECUTIVE COUNCIL. REPRESENTATIVES OF THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK ALSO ATTENDED THE MEETING. THE MEETING REVIEWED ECONOMIC DEVELOPMENTS IN YUGOSLAVIA. COOPERATING GOVERNMENTS CONFIRMED THEIR READINESS TO ACT IN SUPPORT OF THE EFFORTS OF THE YUGOSLAV AUTHORITIES AIMING AT FURTHER IMPROVEMENT OF THE BALANCE OF PAYMENTS AND RESERVE SITUATION.

2. PARTICIPANTS WERE ENCOURAGED BY THE SUCCESS OF THE STABILIZATION EFFORT OF YUGOSLAVIA AND IN PARTICULAR BY THE EVOLUTION OF THE TRADE BALANCE WITH THE CONVERTIBLE CURRENCY AREA IN 1983 AND THE FIRST TWO MONTHS OF 1984. THEY WELCOMED THE ADDITIONAL MEASURES CONTEMPLATED IN 1984 AND EMBODIED IN A PROPOSED STAND-BY ARRANGEMENT WITH THE IMF, WHICH HAS BEEN SUBMITTED TO THE EXECUTIVE

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DIRECTORS OF THE IMF FOR DECISION BEFORE THE END OF APRIL. THEY CONSIDERED THAT THE PROGRESS MADE IN IMPROVING THE PERFORMANCE OF THE ECONOMY AND THE FURTHER STEPS NOW BEING TAKEN SHOULD LEAD TO A RAPID RETURN TO NORMAL TRADE AND CREDIT RELATIONS.

3. PARTICIPANTS NOTED THE PROPOSED ARRANGEMENTS BETWEEN YUGOSLAVIA AND FOREIGN COMMERCIAL BANKS. AFTER REVIEWING EXPERIENCE UNDER THE BERNE AGREEMENT, THEY CONFIRMED THEIR WILLINGNESS, AS SOON AS FINAL APPROVAL OF THE STAND-BY ARRANGEMENT FOR 1984 HAS BEEN GIVEN BY THE BOARD OF THE IMF, TO RESTRUCTURE FOR A 7 YEAR PERIOD, INCLUDING A 4 YEAR GRACE PERIOD, 100 PERCENT OF MATURITIES OF PRINCIPAL FALLING DUE IN 1984. THIS RESTRUCTURING WILL APPLY TO CREDITS EXTENDED BY GOVERNMENTS OR GUARANTEED BY THEM, HAVING AN ORIGINAL MATURITY OF MORE THAN ONE YEAR, PURSUANT TO CONTRACTS CONCLUDED BEFORE DECEMBER 2ND, 1982. THE YUGOSLAVIAUTHORITIES CONFIRMED THAT INTEREST DUE AND ALL NON-CONSOLIDATED MATURITIES WILL BE PAID ON DUE DATES.

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4. PARTICIPANTS WELCOMED THE INTENTIONS EXPRESSED ABOUT THE AVAILABILITY, IN PRESENT CIRCUMSTANCES, OF GUARANTEES< AND EXPORT CREDITS DURING 1984. THESE INCLUDED CONTINUED SHORT-TERM COVER, MEDIUM AND LONG<TERM CREDITS UNDER AGREEMENTS MADE BEFORE THE BERNE PACKAGE (WHERE APPLICABLE) THE UNDISBURSED PORTIONS OF THE BERNE COMMITMENTS, AND ANY NEW CREDITS AVAILABLE. PARTICIPANTS WERE SATISFIED THAT THE SUMS IN PROSPECT, TOGETHER WITH THE OTHER FORMS OF ASSISTANCE DISCUSSED AT THE MEETING, WERE SUFFICIENT TO PROVIDE THE BALANCE OF PAYMENTS FINANCING ENVISAGED IN THE PROECTIONS WHICH UNDERLAY THE PROPOSED IMF PROGRAMME.

5. PARTICIPANTS SUPPORTED THE PREPAREDNESS OF THE WORLD BANK AND OTHER MLITLATERAL ORGANIZATIONS TO INVOLVE FOREIGN GOVERNMENTS AND COMMERCIAL BANKS IN VARIOUS FORMS OF COFINANCING OF HIGH PRIORITY PROJECTS SPONSORED BY THESE ORGANIZATIONS IN YUGOSLAVIA AS A MEANS OF PROVIDING ADDITIONAL FOREIGN FUNDING TO YUGOSLAVIA.

REGARDS, PAUL MENTRE

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Mr Whittome
Revised

To: Ms. Koenig

March 28, 1984

From: Jack Boorman

Subject: Yugoslavia

Further to my memo to you of March 27, I spoke with Mr. Dobrich and he has informed me that he has identified a potential candidate to serve as a consultant for the study of the foreign exchange allocation system. He is now doing a preliminary check on the candidate's availability. He is likely to be able to confirm that availability and make a recommendation late this week or early next week. As soon as we have an indication of interest from Mr. Dobrich and have received biographical details on the candidate, we shall forward them to you for consideration by our departments of the candidate's suitability for this consultancy.

cc: Mr. Whittome

Mr Whittome

E

To: Ms. Koenig

March 28, 1984

From: Jack Boorman

Subject: Yugoslavia

Further to my memo to you of March 27, I spoke with Mr. Dobrich and he has informed me that he has identified a potential candidate to serve as a consultant for the study of the foreign exchange allocation system. He is now doing a preliminary check on the candidate's availability. He is likely to be able to confirm the availability and make a recommendation late this week or early next week. At that time, and after we have had a chance to review the candidate's credentials, I should be able to provide the details necessary for you to initiate the necessary procedures in CBD.

cc: Mr. Whittome

March 28, 1984

Dear Mr. Peklić:

I should like to express my sincere thanks to you, and to your associates, at the National Bank for the magnificent weekend at the Olympic Games in Sarajevo which you arranged for me and my colleagues. We thoroughly enjoyed the Games themselves--their presentation was a model of efficiency that should be a source of much pride in Yugoslavia--and our visit was made all the more memorable by the warm welcome we received, the gracious hospitality of those who accompanied us during the weekend, and the splendid program which was organized for us, including the valuable opportunity of meeting with leading representatives of the financial community in the Republic of Bosnia-Herzegovina.

It was a pleasure for me to have met you and Mrs. Peklić, and I look forward to making a return visit to Sarajavo sometime, and of meeting you again when the opportunity arises.

Sincerely yours,

Hans Schmitt
Senior Advisor
European Department

Mr. Djordje Peklić
Governor
National Bank of Bosnia and Herzegovina
71000 Sarajevo
Yugoslavia

cc: CED

March 28, 1984

Dear Mrs. Miljanovič,

I should like to thank you especially for helping make our weekend visit to the Olympic Winter Games in Sarajevo a most memorable experience. Your hospitality and assistance as guide and interpreter were most appreciated. The Games themselves were outstanding and their success is justly a source of great pride in Bosnia-Herzegovina and throughout Yugoslavia. Our enjoyment of them was enhanced by the superb efforts all of you made in planning a smooth program.

It was a pleasure to have met you. I look forward to the opportunity of returning to Sarajevo sometime in the future, and seeing more of Bosnia-Herzegovina on such an occasion.

Sincerely yours,

Hans Schmitt
Senior Advisor
European Department

Mrs. Ana Miljanovič
National Bank of Bosnia and Herzegovina
71000 Sarajevo
Yugoslavia

March 28, 1984

Dear Mr. Djurčević:

I should like to express my gratitude to you for all that you did to make our weekend visit to the Olympic Winter Games in Sarajevo a most pleasant and memorable one. The Games themselves were exciting and presented with remarkable efficiency. Their overwhelming success reflects very favorably upon the city of Sarajevo and on all of Yugoslavia. We much appreciated your personal efforts to ensure a smooth program for us on such short notice. We will long remember the experience, and your role in it.

Sincerely yours,

Hans Schmitt
Senior Advisor
European Department

Mr. Zeljko Djurčević
Office of Protocol for the Republic
of Bosnia and Herzegovina
71000 Sarajevo
Yugoslavia

INFORMATION COPY

March 28, 1984

Dear Mrs. Horvat,

I should like to express my gratitude to you for all that you did to make our weekend visit to the Olympic Winter Games in Sarajevo a most pleasant and memorable one. The Games themselves were exciting and presented with remarkable efficiency. Their overwhelming success reflects very favorably upon the city of Sarajevo, and indeed on all of Yugoslavia. We much appreciated your hospitality, your patience in answering our many questions, and your assistance as an interpreter with others.

Sincerely yours,

Hans Schmitt
Senior Advisor
European Department

Mrs. Nidžara Horvat
Secretariat of Board of Management
Privredna Banka Sarajevo
71000 Sarajevo
Yugoslavia

March 28, 1984

Dear Dr. Čupić:

I should like to thank you for helping make our weekend visit to the Olympic Winter Games in Sarajevo a most memorable experience. Your hospitality and assistance as organizer, guide and interpreter were much appreciated. The Games themselves were outstanding. Their success surely is a source of much pride in Bosnia-Herzegovina and throughout Yugoslavia--and quite justifiably so. Our enjoyment of them was much enhanced by your superb efforts in planning a smooth program.

It was a pleasure to have met you. I look forward to the opportunity of returning to Sarajevo sometime in the future, and seeing more of Bosnia-Herzegovina when the opportunity comes.

Sincerely yours,

Hans Schmitt
Senior Advisor
European Department

Dr. Ivo Čupić
National Bank of Bosnia and Herzegovina
71000 Sarajevo
Yugoslavia

March 28, 1984

Dear Mr. Kalaba:

I should like to express my sincere appreciation to you for hosting a luncheon on behalf of myself and my colleagues in Sarajevo on February 19. It was thoughtful of you to have planned such a pleasant occasion, which afforded us the opportunity of meeting you, and of learning more about the economic life of Bosnia-Herzegovina.

The luncheon completed what was a truly outstanding weekend for us at the Olympic Winter Games in Sarajevo. Thank you for sharing it with us.

Sincerely yours,

Hans Schmitt
Senior Advisor
European Department

Mr. Radivoj Kalaba
Deputy President
Jugobanka-Sarajevo
71000 Sarajevo
Yugoslavia

March 28, 1984

Dear Mrs. Zukič:

I should like to express my sincere appreciation to you for hosting a luncheon on behalf of myself and my colleagues in Sarajevo on February 19. It was thoughtful of you to have planned such a pleasant occasion, which afforded us the opportunity of meeting you, and of learning more about the economic life of Bosnia-Herzegovina.

The luncheon completed what was a truly outstanding weekend for us at the Olympic Winter Games in Sarajevo. Thank you for sharing it with us.

Sincerely yours,

Hans Schmitt
Senior Advisor
European Department

Mrs. Habiba Zukič
President
Ljubljanska Bank Sarajevo
71000 Sarajevo
Yugoslavia

March 28, 1984

Dear Dr. Piljak:

I should like to express my sincere appreciation to you for hosting a luncheon on behalf of myself and my colleagues in Sarajevo on February 19. It was thoughtful of you to have planned such a pleasant occasion, which afforded us the opportunity of meeting you, and of learning more about the economic life of Bosnia-Herzegovina.

The luncheon completed what was a truly outstanding weekend for us at the Olympic Winter Games in Sarajevo. Thank you for sharing it with us.

Sincerely yours,

Hans Schmitt
Senior Advisor
European Department

Dr. Obrad Piljak
President
Privredna Banka Sarajevo
71000 Sarajevo
Yugoslavia

March 28, 1984

Dear Mr. Pelivan:

I should like to express my sincere thanks to you and to your associates at the National Bank for the magnificent weekend at the Olympic Games in Sarajevo which you arranged for me and my colleagues. We thoroughly enjoyed the Games themselves--you and your fellow countrymen may justifiably be proud of the splendid, colorful and superbly organized presentation.

Your personal involvement in our Sarajevo weekend helped make it especially memorable. We were impressed by the precision timing, including transportation to and from the hotel and several events, that characterized our schedule. We also enjoyed the spur-of-the-moment walk through Sarajevo's historical district at night.

It was my personal pleasure to have met you, and I look forward to another opportunity of returning to Sarajevo and of renewing our acquaintance when the opportunity arises. Thank you once again for your gracious hospitality.

Sincerely yours,

Hans Schmitt
Senior Advisor
European Department

Mr. Jure Pelivan
Deputy Governor
National Bank of Bosnia and Herzegovina
71000 Sarajevo
Yugoslavia

March 28, 1984

Dear Mr. Smajilović:

I should like to express my sincere thanks to you for having us as your guests at the luncheon you hosted in Sarajevo on February 18. It was a pleasure to have met you, and I appreciate having had the opportunity of learning more about the economic life of the Republic of Bosnia and Herzegovina.

We thoroughly enjoyed the Olympic Games themselves and found them to be superbly organized--justifiably a source of pride to the citizens of Bosnia and Herzegovina and to all Yugoslavs. Your gracious hospitality that afternoon served to make our visit to Sarajevo even more memorable.

I look forward to another opportunity sometime of a return visit to Bosnia-Herzegovina and to the city of Sarajevo.

Sincerely yours,

Hans Schmitt
Senior Advisor
European Department

Mr. Mensur Smajilović
Secretary for Finance
Republic of Bosnia and Herzegovina
71000 Sarajevo
Yugoslavia

INFORMATION COPY

Yugoslav Representatives in Sarajevo, February 1984

1.	Mr. Mensur Smajilović	– Republican Secretary for Finance
2.	Mr. Djordje Peklić	– Governor, National Bank of Bosnia and Herzegovina
3.	Mr. Jure Pelivan	– Deputy Governor, National Bank of Bosnia and Herzegovina
4.	Dr. Obrad Piljak	– President, Privredna Banka Sarajevo (Associated Bank)
5.	Mrs. Habiba Zukić	– President, Ljubljanska Banka, Sarajevo (a basic bank)
6.	Mr. Radivoj Kalaba	– "Deputy President" of Jugobanka, a basic bank in Sarajevo
7.	Dr. Ivo Čupić	– Director of Analysis, National Bank of Bosnia and Herzegovina
8.	Mrs. Ana Miljanović	– Assistant Director of Foreign Exchange Department, National Bank of Bosnia and Herzegovina
9.	Mrs. Nidžara Horvat	– Chief of Protocol, Privredna Banka Sarajevo
10.	Mr. Željko Djurčević	– Protocol Office, Republic of Bosnia and Herzegovina

Postal Address: 71000 Sarajevo

Mr Whittome

Office Memorandum

March 28, 1984

MEMORANDUM FOR FILES

Subject: Yugoslavia--Meeting with Manufacturers Hanover on March 27

I met in New York with Mr. Dobrich, Miss Mudd, and Mr. Fisher, Manufacturers Hanover. I briefed them on the content and outcome of the Geneva meeting discussions. I gave them a copy of the Chairman's summing up which will be officially transmitted to Manufacturers Hanover by Mr. Probst.

Legal discussions with the Yugoslav team on the drafting of the loan agreement will start on March 29 with a view to reaching final agreement before April 18. The loan agreement would then be circulated to all participating banks, sufficiently in advance of signing which should take place in the week beginning May 14 and anyway not later than the end of May, to meet the June 18 deadline for funding, somewhat in advance of the June 30 expiration of the extended standstill.

Manufacturers Hanover gave me a copy of the loan agreement1/ to be discussed with the Yugoslavs. Some changes have, however, already been introduced in this draft by the ICC legal subcommittee. They relate to the treatment of arrears (a greater flexibility for banks to use an escrow account when arrears are outstanding, a suggestion presented by Barclays, who has continuing difficulties on arrears), the inclusion of the ECU as a permitted currency (a suggestion of Societe Generale which seemingly is not resisted by the Yugoslavs) and some drafting changes on conditions preceding the implementation of the agreement.

These conditions stand as follows:

1. Condition precedent to execution and effectiveness of the agreement.

June 18

(a) Approval by the IMF Board of the new stand-by (the reference to the letter of intent in the present draft text will be changed).

(b) Payment of arrears.

(c) No 1983 event of default.

(d) Guarantee (to be formally approved by the Yugoslav Federal Assembly before effective signing but not necessarily before April 18).

2. Conditions precedent to the first refunding and consolidating loans (refunding on June 18 of all maturities having already fallen due amounting to about 40 percent of total 1984 maturities; thereafter there will be monthly refunding operations). ?

1/ I gave Mr. Hansen an additional copy.

(a) Payment of fees, costs, and expenses (Mr. Dobrich will have to pay a visit to Belgrade to reach an agreement on the agency fees).

(b) Payment of arrears.

(c) Transmission of the IMF stand-by arrangement instruments.

(d) Governmental financing.

(i) transmission by the Yugoslav Secretariat of Finance of evidence of the agreement of Governments to refinance 100 percent of maturities of principal falling due in 1984;

(ii) a telex by the Berne Accord coordinator ~~stating~~ that unused Berne credits will be carried over into 1984.

(e) IBRD loans (certification that disbursements in 1984 will be higher than scheduled repayments to the IBRD).

(f) Other refinancing.

(g) LHB agreement. by new subsid of Yugobanka in F'furt

(h) Legal opinions and various reports and certifications by the borrower.

I briefed Manufacturers Hanover on the timetable contemplated by Governments for action on refinancing (a meeting in Paris probably on May 2). The wording of the draft loan agreement will probably have to be somewhat modified to include the Geneva summing up as well as subsequent agreed minutes. Since the documents will be transmitted by the Yugoslavs it should not create difficulties.

On the reconciliation process, Manufacturers Hanover had less updated figures than the ones given to me in Belgrade ($977 million reconciled as of March 2). The Peat Marwick and Mitchell progress report dated February 29, 1984 gives a figure of $616 million reconciled which means about 85 percent of the amount reported by creditors and 40 percent of amounts reported by obligors. Mr. Dobrich confirmed that the $200 million 1982 Citibank syndicated loan would be extended by 18 months and therefore not subject to refinancing. He confirmed also that other exclusions should be quite limited (around $30 million for bonds and FRNs and less than $50 million for a forfait transactions). His estimate of fiscal total refinancing by commercial banks was $1,250 million.

On short-term credits I mentioned I got the impression in Belgrade that there had been some net outflow during the first quarter, notably under the continuing credit facilities. Mr. Dobrich doubted it. As far as Manufacturers Hanover was concerned, there has been on the contrary a greater use of CCF in recent weeks. He had also the impression that the standstill was much more strictly implemented than in 1983. There might have been some repayments of a forfait transactions beyond the 30 percent figure deemed to represent interest payments. But he was not aware of any other early repayment and since Manufacturers Hanover was the main correspondent bank of Yugoslavia he would have been informed of them. However, Mr. Dobrich mentioned that it did not have any information on operations conducted by Yugoslavia through its correspondent relations with the Bank of China with which a relatively large deposit appeared to be held by Yugoslavia in view notably of the sovereign immunity ensured in London to the Bank of China. Mr. Dobrich was aware of the need to consolidate in due time short-term maturities falling due in January 1985. I mentioned again a Hungary-type medium-term acceptance facility. In his judgment, it could be only relevant for dollar acceptances and sterling acceptances. He recognized that commercial banks will have to start addressing this issue as soon as the financing agreement has been signed. I added that I had conveyed to Korosec the idea that it could be useful to get a waiver of existing negative pledge clauses.

On medium-term loans, basically cofinancing, Mr. Dobrich was encouraged by the discussions he had had with Mr. Kaps, World Bank, and the indications I gave him on the attitude of EIB officials and participants in the Geneva meeting. Here again, he thought that one should wait for effective signing of the 1984 loan agreement and he mentioned the joint U.S./Yugoslav Economic Committee to be held in Yugoslavia in June as a first opportunity to address such issues. He suggested attendance by the Fund.

On the likely attitude of individual banks, Mr. Dobrich mentioned that there were still three banks which had not signed the 1983 agreement: National Bank of Minneapolis and two banks in Singapore (Overseas Development Corporation and Overseas United Bank).

Bankers Trust should continue to press for some reference in the loan agreement to the needed changes in the foreign exchange allocation system but this could be probably handled through some association of Mr. Brainard with the foreign allocation study. Finally some banks, such as Riggs, might try again to use the refinancing agreement as a leverage for conducting other business transactions. However, since the threshhold for reconciliation prior to effective signing had been reduced from 85 percent in 1983 to 75 percent in 1984, likely difficulties with individual banks should not stand in the way of meeting the presently contemplated timetable.

Paul Mentré

500 out of 670
200 200
700 870

Attachment

cc: Mr. Whittome
Mr. Schmitt
Mr. Boorman
Mr. Hansen
Mr. Petersen

Administrative Co-ordinator's Progress Report dated 29th February 1984

Introduction

1. This report has been prepared by the Administrative Co-ordinator ("PMM") in order to advise the Yugoslav Group for Co-ordination and the International Co-ordinating Committee of the progress achieved to date in the reconciliation and related work being carried out in connection with the 1984 Refinancing. The financial information contained in this report records the position as at the close of business on 27th February 1984.

2. All money amounts are expressed in U.S. Dollars. Amounts denominated in other currencies are translated into U.S. Dollars at the mid-market rates at the close of business on 24th January 1984.

Ascertainment of information

3. In accordance with the timetable agreed between the Yugoslav Group for Co-ordination and PMM, information regarding eligible debt was made available by the obligors on 10th January 1984.

4. Questionnaires were sent to creditors on, or in some cases shortly before, 31st January 1984 requesting them to provide PMM with information regarding eligible debt. Creditors were requested to return their questionnaires, duly completed, so as to be received by PMM no later than 29th February 1984. Questionnaires were sent to all creditors who had received them in relation to the 1983 refinancing and to those further creditors revealed by the information provided by the obligors.

5. To date, PMM has despatched questionnaires to 656 creditors. The position of replies received is as follows:

	Number of Creditors
Replies received from creditors, being	
- Creditors who have reported eligible debt	281
- Creditors who have advised that they have no eligible debt to report	67
	348
Creditors who have not yet replied	308
Total questionnaires despatched, as above	656

6. Of the 308 creditors who have not so far replied, 109 have advised that their returns have been despatched or will be despatched in the very near future. The remaining 199 creditors have been sent telexes urging a prompt response. The 199 creditors concerned are listed in the attached appendix.

Financial information

(a) Reported by obligors

7. The amount of eligible debt as originally reported by the obligors and as adjusted to date arising from reconciliation work, is summarised as follows:

	As originally reported	As adjusted
	U.S. $ millions	
Debt arising under:		
- Syndicated agreements (Note 1)	1,173	1,158
- A forfait transactions (Note 2)	77	76
- Bonds and floating rate notes (Notes 3 and 4)	33	33
- All other transactions	315	296
	1,598	1,563

Notes:

(1) The maturities reported in respect of syndicated agreements include one maturity of $200 million, which, it is understood, may in certain circumstances be deferred and not become due until after 31st December 1984.

(2) The amount reported in respect of a forfait transactions represents the gross amounts due and does not therefore take into account any a forfait deduction which may be payable by the obligors.

(3) Of the total amount maturing under bond and floating rate note issues, U.S.$ 27.5 million is in respect of maturities where the amount becoming due to each holder is determined by lot, as follows:

Maturity date in 1984	Maturity amount $ millions
5th January	2.5
5th July	2.5
17th June	5.0
17th December	5.0
21st July	7.5
23rd May	5.0
	27.5

Refunding and Consolidating Loan Notices in respect of those maturities will not be capable of being prepared until after the relevant drawings by lot have taken place and the creditors have been notified of their amounts drawn for redemption.

(4) The amounts shown above in respect of bond and floating rate note issues are the total amounts maturing in 1984 as reported by the obligors. At this stage, it is not possible to estimate the amounts which will be reported by bank creditors as due to them beneficially.

8. The adjustments which have been made to date to the total amount as reported originally by the obligors are summarised as follows:

	$ millions	$ millions
Amount as originally reported (paragraph 7)		1,598
Less:		
Amounts included therein due to creditors which are not banks or financial institutions (for example Government Insurance Agencies)	16	
Incorrect reporting or processing (for example, amounts duplicated)	15	
Amounts which have proved to be Government guaranteed and/or related debt and which creditors anticipate will be incorporated in a bi-lateral rescheduling	4	35
Adjusted amount (Paragraph 7)		1,563

(b) Reported by creditors

9. The amounts so far reported by creditors, as adjusted by the results of reconciliation work to date, are summarised below showing also the percentage which these amounts bear to the total amounts, as adjusted, reported by the obligors (paragraph 7):

	Amounts reported $ millions	% of obligors reports
Debt arising under:		
- Syndicated agreements	545	47
- A forfait transactions	36	47
- Bonds and floating rate notes	2	6
- All other transactions	140	47
	723	46

the matters referred to in the notes to the table in paragraph 7 are also of relevance to a consideration of the figures shown above.

Progress in reconciliation work

10. The amounts which have to date been reconciled or agreed are summarised below, showing also the percentage that the amounts reconciled bear to (a) the amounts as reported by creditors, as adjusted (paragraph 9) and, (b) the amounts as reported by obligors, as adjusted (paragraph 7):

	Amounts reconciled $ millions	% of amount reported by creditors	% of amount reported by obligors
Debt arising under:			
- Syndicated agreements	463	85	40
- A forfait transactions	33	92	43
- Bonds and floating rate notes	2	100	6
- All other transactions	118	84	40
	616	85	39

11. The amount of maturities arising under syndicated agreements which has been reconciled to date, is further analysed as follows:

	$ millions
- Where all members of the syndicate have reported and the syndicate is fully reconciled	4
- Where the syndicate agent has reported but some other members have not	126
- Where the syndicate agent has not reported *	333
	463

* These amounts are regarded as reconciled as reasonable confidence in the figures reported by creditors has been established by reference to information obtained for the 1983 Refinancing. However, the amounts cannot be regarded as completely reconciled until the return from the relevant syndicate agents has been received and the reconciliation work is at present being significantly delayed by the absence of these returns.

Payments received or other recoveries made

12. The obligors prepared their reports at the end of December 1983 and consequently have not reported any payments. Creditors have to date reported payments received and other recoveries made of $1.8 million.

APPENDIX

LIST OF CREDITORS FROM WHOM NO REPLY RECEIVED
OR NO INDICATION OF IMMINENT RESPONSE
AS AT 29TH FEBRUARY

(199 IN TOTAL)

ALLGEMEINE FINANZ UND WAREN TREUHAND A.G.
ATLANTIC FINANZ & VERWALTUNGS A.G.
BANCO DE VIZCAYA S.A.
BANKINVEST
BANKKOMMANDITGESELLSCHAFT WINTER & CO.
BANQUE DE COMMERCE ET DE PLACEMENTS S.A.
DIE ERSTE OESTERR, SPAR-CASSE
EFAG EXPORT FINANCE COMPANY LTD.
FORFAITIERUNG UND FINANZ A.G.
GOTTHARD BANK INTERNATIONAL LIMITED
HAFAG FINANZ S.A.
LLOYDS BANK INTERNATIONAL LTD. - ZURICH
LLOYDS BANK INTERNATIONAL LTD. - GENEVA
MAAG FINANZ A.G.
SODITIC S.A.
SWISS BANK CORPORATION
UFITEC S.A., UNION FINANCIERE
UNION BANK OF SWITZERLAND
VIZCAYA FINANZ A.G.
CREDIT LYONNAIS FINANZ A.G. ZURICH
BANK FUER HANDEL UND INDUSTRIE
BANK FUR GEMEINSCHAFT
BANKHAUS REUSCHEL & CO.
BAYERISCHE HYPOTHEKEN-UND WECHSELBANK A.G.
DEUTSCHE GESELLSCHAFT FUR WIRTSCHAFTLICHE
DEUTSCHE LAENDERBANK AKTIENGESELLSCHAFT
DRESDNER BANK A.G.
DRESDNER FORFAITIERUNG A.G.

H. AUFHEUSER AUSSENHANDELSBANK
HANDELSBANK-UND PRIVATBANK A.G.
LLOYDS BANK INTERNATIONAL LTD. - MUNICH
LLOYDS BANK INTERNATIONAL LTD. - FRANKFURT
LLOYDS BANK INTERNATIONAL LTD. - DUSSELDORF
NORDDEUTSCHE LANDESBANK GIROZENTRALE
STADTSPARKASSE WUPPERTAL
VOLKSBANK REUTLINGEN E.G.
ALLIED BANK AND TRUST COMPANY (BAHAMAS) LIMITED
AMERICAN EXPRESS INTERNATIONAL BANKING CORPORATION
AMERICAN FLETCHER NATIONAL BANK AND TRUST COMPANY
AMERICAN SECURITY BANK INTERNATIONAL (NASSAU) LTD.
BANK OF AMERICA NT & SA
BANK OF CALIFORNIA INTERNATIONAL N.Y.
CENTERRE BANK
CENTRAL NATIONAL BANK OF CLEVELAND
CHASE MANHATTAN S.A.
CHASE MANHATTAN BANK (AUSTRIA) A.G.
CHASE MANHATTAN BANK A.G.
THE CHASE MANHATTAN BANK
CHEMICAL BANK INTERNATIONAL LTD.
CITICORP INTERNATIONAL BANK LIMITED
COLONIAL BANK
EQUIBANK
EUROPEAN AMERICAN BANK (BAHAMAS)
EUROPEAN AMERICAN BANK AND TRUST CO.
EUROPEAN AMERICAN BANK INTERNATIONAL
FIRST CHICAGO LIMITED, LONDON
FIRST CITY NATIONAL BANK OF HOUSTON
FIRST INTERSTATE BANK OF CALIFORNIA
FIRST INTERSTATE BANK OF WASHINGTON
FIRST INTERSTATE INTERNATIONAL OF CALIFORNIA
FIRST NATIONAL BANK IN CHICAGO - FRANKFURT
FIRST NATIONAL BANK IN ST. LOUIS
THE FIRST NATIONAL BANK OF BOSTON
FIRST NATIONAL BANK OF CHICAGO - CHICAGO
FLEET NATIONAL BANK
MERCANTILE NATIONAL BANK IN DALLAS

BANQUE DE PARIS ET DES PAYS-BAS (BANQUE PARIBAS)
F. VAN LANSCHOT BANKIERS N.V.
THE FUJI BANK AND TRUST COMPANY
FUJI INTERNATIONAL FINANCE LIMITED
THE INDUSTRIAL BANK OF JAPAN LIMITED
KANSALLIS-OSAKE-PANKKI
KREDITBANK S.A. LUXEMBOURG
L'UNION DE CREDIT POUR LE DEVELOPPEMENT REGIONAL
THE LONG-TERM CREDIT BANK OF JAPAN LIMITED
MITSUI FINANCE EUROPE LIMITED
MITSUI MANUFACTURERS BANK
N.V. SLAVENBURG'S BANK
NATIONAL BANK OF CANADA (INTERNATIONAL) LIMITED
NATIONALE BANK VOOR MIDDELLANG KREDIET
NIKKO SECURITIES COMPANY (EUROPE) LIMITED
NORDISKA INVESTERINORSBANKEN
THE ROYAL BANK OF CANADA - LONDON
THE ROYAL BANK OF CANADA - TORONTO
THE SAITAMA BANK LIMITED
SFE BANKING CORPORATION LTD.
SINGAPORE NOMURA MERCHANT BANKING LIMITED
SKANDIFINANZ A.G.
SKANSKA BANKEN
SOCIETE FINANCIERE EUROPEENNE FINANCE N.V.
SOCIETE GENERALE ALSACIENE DE BANQUE
SOCIETE INDUSTRIELLE DE BANQUE
SOCIETE LYONNAISE DE BANQUE
SUMITOMO FINANCE INTERNATIONAL
THE SUMITOMO TRUST AND BANKING COMPANY LIMITED
SWEDBANK (SPARBANKERNAS BANK)
THE TOKAI BANK LIMITED
TOKAI BANK OF CALIFORNIA
TRINKAUS & BURKHARDT (INTERNATIONAL) S.A.
UBAF BANK LTD.
UNION MEDITERRANEENNE DE BANQUE
UNION TUNISIENNE DE BANQUE
YASUDA MUTUAL LIFE
CREDIT LYONNAIS BANK NEDERLAND N.V.

THE ROYAL BANK OF CANADA (FRANCE) S.A.
ABU DHABI INVESTMENT COMPANY
AHORROBANK
AL AHLI BANK OF KUWAIT
ARAB BANK (SWITZERLAND) LTD.
ARAB BANK FOR INVESTMENT AND FOREIGN TRADE
ARAB BANK INVESTMENT COMPANY LIMITED
ARAB JORDAN INVESTMENT BANK (AMMAN)
BAHRAIN INVESTMENT COMPANY, B.S.C.
BALFOUR WILLIAMSON AND CO. LTD.
BANCA COMMERCIALE ITALIANA S.P.A.
BANCA NAZIONAL DEL LAVORO
BANCA POPOLARE DI BERGAMO
BANCO ARABE ESPANOL, S.A.
BANCO DE BILBAO S.A.
BANCO DI NAPOLI INTERNATIONAL S.A.
BANCO DI ROMA FINANCE CO. LTD. NASSAU
BANCO DI ROMA S.P.A.
BANCO DI SICILIA, S.P.A.
BANCO DO COMMERCIO E INDUSTRIA DE SAO PAULO
BANCO DO ESTADO DE SAO PAULO S.A.
BANCO EXTERIOR SUIZA S.A.
BANCO POPULAR ESPAGNOL
BANK BUMIPUTRA MALAYSIA BERHAD
BANK OF BARODA
BANK OF GREECE
THE BANK OF INDIA
BANK OF LEBANON & KUWAIT SAL
BRITISH BANK OF THE MIDDLE EAST
BYBLOS BANK S.A.L.
CASSA DI RISPARMIO DI GENOVA E IMPERIA
CASSA DI RISPARMIO DI TORINO
CASSA DI RISPARMIO DI VERONA, VICENZE E BELLUNO
CREDITO VARESINO S.P.A.
GRINDLAY BRANDTS LIMITED
GRINDLAYS BANK P.L.C.
GUINNESS PEAT AVAL LIMITED
INTERMEX INTERNATIONAL BANK LTD.

INTERNATIONAL MEXICAN BANK LIMITED
KUWAIT INTERNATIONAL FINANCE COMPANY S.A.K.
KUWAIT INTERNATIONAL INVESTMENT COMPANY S.A.K.
LAVORO BANK A.G. ZUERICH
LAVORO BANK OVERSEAS N.V.
LIBYAN ARAB FOREIGN BANK AIB
LLOYDS BANK INTERNATIONAL (BAHAMAS) LIMITED
MIDLAND BANK FRANCE S.A.
MIDLAND EXPORT-CREDITBANK GESMBH
THE NATIONAL BANK OF GREECE
NATIONAL COMMERCIAL BANK OF SAUDI ARABIA
QATAR NATIONAL BANK SAQ
SAMUEL MONTAGUE AND COMPANY LIMITED
SCANDINAVIAN BANK LIMITED
SKANSKA BANKEN
SOCIETE BANCAIRE BARCLAYS (SUISSE) S.A.
STATE BANK OF INDIA - LONDON
THE UNION BANK OF THE MIDDLE EAST LTD - DUBAI
STATE BANK OF INDIA - BOMBAY

Office Memorandum

MAR 27 1984

TO : The Managing Director DATE: March 27, 1984

FROM : L.A. Whittome /LAW

SUBJECT : Yugoslavia Meeting in Geneva

Mr. Schmitt, Mr. Mentré, Mr. Guetta, and I attended a "friends of Yugoslavia" meeting in Geneva on March 24 chaired by State Secretary Probst. On the previous day we had visited Berne to brief Mr. Probst.

The new program was widely welcomed especially by the U.K. and U.S. There was a general air of satisfaction even optimism though we warned explicitly of the dangers surrounding prices and capital flows. We were able to ensure that the communiqué, which indeed we drafted, made a specific reference to the fact that the countries attending were satisfied that the capital flows that underlay the Fund's projections were assured--indeed it is probable that they are overassured.

The Yugoslav's extreme sensitiveness on the foreign exchange allocation issue was again prominent but though they insisted that a reference to it should be deleted from the communique we were able to persuade them and the meeting, that the point should be the subject of a letter from Probst to Šmole. This was drafted by us and signed. I attach a copy of the communiqué which was issued.

Attachment

cc: The Deputy Managing Director
Mr. Collins

CHAIRMAN'S SUMMING UP

Press Communiqué

1. Representatives of Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Italy, Japan, Kuwait, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States met in Geneva on March 24, 1984 under the chairmanship of State Secretary Raymond Probst. The Yugoslav delegation was led by Mr. Janko Smole, member of the Federal Executive Council. Representatives of the International Monetary Fund and the World Bank also attended the meeting. The meeting reviewed economic developments in Yugoslavia. Co-operating Governments confirmed their readiness to act in support of the efforts of the Yugoslav authorities aiming at further improvement of the balance of payments and reserve situation.

2. Participants were encouraged by the success of the stabilisation effort of Yugoslavia and in particular by the evolution of the trade balance with the convertible currency area in 1983 and the first two months of 1984. They welcomed the additional measures contemplated in 1984 and embodied in a proposed stand-by arrangement with the IMF, which has been submitted to the Executive Directors of the IMF for decision before the end of April. They considered that the progress made in improving the performance of the economy and the

further steps now being taken should lead to a rapid return to normal trade and credit relations.

3. Participants noted the proposed arrangements between Yugoslavia and foreign commercial banks. After reviewing experience under the Berne agreement, they confirmed their willingness, as soon as final approval of the stand-by arrangement for 1984 has been given by the Board of the IMF, to restructure for a 7 year period, including a 4 year grace period, 100 percent of maturities of principal falling due in 1984. This restructuring will apply to credits extended by Governments or guaranteed by them, having an original maturity of more than one year, pursuant to contracts conluded before December 2nd, 1982. The Yugoslav authorities confirmed that interest due and all non-consolidated maturities will be paid on due dates.

4. Participants welcomed the intentions expressed about the availability, in present circumstances, of guarantees and export credits during 1984. These included continued short-term cover, medium and long-term credits under agreements made before the Berne package (where applicable), the undisbursed portions of the Berne commitments, and any new credits available. Participants were satisfied that the sums in prospect, together with the other forms of assistance discussed at the meeting, were sufficient to provide the balance of payments financing envisaged in the projections which underlay the proposed IMF programme.

5. Participants supported the preparedness of the World Bank and other multilateral organisations to involve foreign Governments and commercial banks in various forms of co-financing of high priority projects sponsored by these organisations in Yugoslavia as a means of providing additional foreign funding to Yugoslavia.

The Managing Director March 27, 1984

L. A. Whittome

Yugoslavia--Letter of Intent

The attached copy of the Yugoslav letter of intent, signed by Minister Klemencic and Governor Makic, was handed to us in Geneva over the weekend.

Attachment

cc: The Deputy Managing Director
Mr. Collins
CED

cc: JB

Office Memorandum

TO : Mr. Whittome

DATE: March 27, 1984

FROM : Jack Boorman

SUBJECT : Yugoslavia

In order to confirm eligibility for the first purchase under the stand-by arrangement, the Yugoslav authorities will have to inform the Fund that the measures to be taken by May 1, 1984 have in fact been implemented. Given the complexity of the measures, in particular, the legal arrangements associated with the lifting the price freeze and liberalization of the degree of price control, there may well be some delay in securing confirmation by the staff that the agreed-upon action has been taken. Consequently, the transaction cannot realistically be expected until mid-May at the earliest. I understand that Yugoslav officials expect to discuss reporting requirements and other matters related to procedures for purchases under the stand-by when in Washington for the Interim Committee meeting.

I would propose that we prepare a short note for the authorities to be handed to them at the time of the Interim Committee meetings explaining briefly the procedures we must initiate to prepare for a purchase and outlining the reporting requirements for the entire program as well as those necessary to permit a mid-May purchase.

cc: Mr. Schmitt
Mr. Hansen
Mr. Lewis

W. Whittome

cc BR.

Office Memorandum

March 27, 1984

To: Ms. Koenig

From: Jack Boorman JB

Subject: Yugoslavia - Study of the Foreign Exchange Allocation System

The recent stand-by arrangement negotiated with Yugoslavia calls for a study to be conducted of the foreign exchange allocation system. As stated in the letter of intent:

"We are conscious that, as the flow of foreign exchange to Yugoslavia is normalized, further progress in the liberalization of our payments system will be possible, based on the consent of those who earn the foreign exchange and to whom it therefore belongs. An official review will be considered in the Assembly of the SFRY by midyear. We have consented to a separate study of the operations of the present system by a group chaired by the International Monetary Fund with the assistance of expert consultants from inside and outside Yugoslavia. This study will be completed not later than August 31, 1984, before the review of the stand-by arrangement specified in paragraph 24, to help in defining any further measures that may be deemed necessary to improve the efficiency of the system."

Further reference to the proposed study is made in the text of the program paper put to the Board:

"The Yugoslav authorities are undertaking a review of the operation of the (foreign exchange) system, to be completed by midyear. They have also agreed to a separate study by the Fund staff; the staff will be assisted in this study by expert consultants from both inside and outside Yugoslavia, including representatives of the World Bank and of the private banking sector. The recommendations put forward in these studies will be discussed with the staff and considered by the Fund in the course of the midterm review of the program which is to take place no later than November 1984."

We have tentatively planned that I should lead the study group with the participation of two other Fund staff (Mr. Petersen, ETR, and Mr. Brodsky, EUR) and with some assistance from the World Bank. Improvement in the foreign exchange allocation system is one element of the Bank's SAL program with Yugoslavia and they have indicated a willingness to participate, probably by assigning one staff member to our missions, although this is not yet firm. The Yugoslav authorities are to provide consultants--preferably Yugoslav bankers and financial managers of enterprises--to assist the study group.

In addition, it is intended to request the assistance of a commercial banker in this effort. The International Coordinating Committee (ICC) is the representative group of western bankers through which negotiations on Yugoslav debt rescheduling and other matters have been handled. This group, as well, has been pressing the authorities to reform the foreign exchange allocation system. The plan to consult with a commercial banker in this effort stems, then, both from the commonality of interest shared with the ICC and the potential usefulness to this exercise of someone more familiar than our staff with the documentation and processes involved in cross-border trade and financial transactions. We would hope to secure the services of an expert in these matters, having broad operational experience in a European country at approximately the level of development of Yugoslavia. We would not benefit from a bank economist or loan officer. A facility in a language familiar to Yugoslavia (perhaps German) would be helpful. Mr. Whittome has already approached the Chairman of the ICC, Mr. Dobrich, to test his interest in helping to identify a suitable candidate in the banking community. Mr. Dobrich has responded positively. A draft terms of reference for such a consultant is attached.

We tentatively plan two visits to Yugoslavia in connection with this study. The first, in late April or early May, would concentrate on analysis of the legal framework of the foreign exchange allocation system (and, especially, of the recent changes introduced), the intentions of the authorities for its operation and certain technical/data matters concerning the reconciliation of trade and financial data originating from different sources. The second mission, in mid or late June, would attempt to more fully understand the exact workings of the present system and to define areas where modifications could help improve its efficiency For these purposes, we would intend to hold extensive discussions with banks and enterprises (in both the socialized and nonsocialized sectors); only a limited amount of time would be spent with officials.

At present we would foresee a role for the commercial banker primarily in the second mission. For this purpose, I would think that his presence would be required in Washington for a week or so before and after that mission, perhaps from the first week of June until about the second week of July.

I would much appreciate the opportunity to discuss further with you the necessary arrangements for this consultancy.

Att.

cc: Mr. Whittome

INTERNATIONAL MONETARY FUND

Yugoslavia: Study on Foreign Exchange Allocation System

<u>Terms of Reference for a Consultant to a Staff Mission</u>

1. The consultant will participate in an advisory study of the operation of the foreign exchange allocation system in Yugoslavia, to be chaired by the International Monetary Fund. The consultancy will be for a period of about two months beginning in late May, 1984.

2. Along with a team chaired by the Fund the consultant will visit Yugoslavia to participate in discussions with national officials, with representatives of provincial and regional banks, and with financial managers of enterprises (in both the socialized and nonsocialized sectors) concerning the operation of the present foreign exchange allocation system. Particular attention will be given to the following:

(a) The extent to which amendments in 1983 and 1984 to the law on foreign exchange allocation have facilitated the development of a unified (national) foreign exchange market in Yugoslavia. In this connection it will be necessary to ascertain the ease with which individual firms (as well as provinces and regions) are able to acquire needed foreign exchange.

(b) The manner in which foreign exchange earnings retained by exporters are allocated among individual enterprises associated in joint export ventures. This will involve analysis of both the manner in which the socially verified reproduction needs of individual firms are established, and the terms on which foreign exchange is transferred among associated enterprises.

3. The consultant will need to spend a week or so in Washington both before and after the mission (tentatively set for late June). In all his activities he will report to Mr. Boorman, in the European Department, and will be subject to his general supervision.

4. The consultant will provide background material for the study as requested by Mr. Boorman, will participate in discussions in Yugoslavia, and will help in preparation of the recommendations and final report. In all cases, responsibility for final decisions on content, recommendations, and disposition of the results of the study will rest with the Fund.

Mr. Whittome

Office Memorandum

MEMORANDUM FOR FILES March 27, 1984

Subject: Yugoslavia

cc: JB

I spoke today with Mr. Dobrich. He was very positive in his offer of assistance for the Foreign Exchange Allocation System study. He has identified a candidate in Manufacturers Hanover. She is a Vice President (Ms. Mudd) who was involved in the Yugoslav debt restructuring exercise and previously served for three years as Yugoslav desk officer in the bank. She reportedly speaks Serbo-Croatian--learned during residence in Yugoslavia with her family--and is well known to Yugoslav bankers.

I know her & suspect that she would be good & would be acceptable to the Yugoslavs. Where do we go next?

Jack Boorman

cc: Mr. Whittome
Mr. Schmitt
Mr. Petersen
Mr. Brodsky

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

CABLE ADDRESS
INTERFUND

March 24, 1984

YUGOSLAVIA

The attached tables reflect the figures on which the stabilization program for 1984 is based.

Table 1. Yugoslavia: Balance of Payments with the Convertible Currency Area, 1982-84 1/

(In millions of U.S. dollars)

	1982	1983 Revised estimate	1984 Staff Proj.
Exports, f.o.b.	5,526	6,271	7,000
Imports, c.i.f.	9,069	8,069	8,700
Trade balance	-3,543	-1,798	-1,700
Workers' remittances (net)	1,663	1,610	1,550
Tourism (net)	704	875	1,000
Interest payments (net)	-1,692	-1,489	-1,650
Other (net)	1,266	1,101	1,300
Services (net)	1,941	2,097	2,200
Current balance	-1,602	299	500
Medium- and long-term capital	-126	1,140	250
Loans received (net)	51	1,297	450
Drawings	(1,815)	(3,660)	(3,195)
Repayments	(-1,764	(-2,363)	(-2,745)
Loans extended (net)	-177	-157	-200
Short-term capital through the banking system	-506	-670	--
Other short-term capital, errors and omissions	659	-1,234	-250
Overall balance	-1,575	-465	500
Use of Fund credit	563	410	10
Purchases	608	590	293
Repurchases	45	180	283
Reserve movements (increase -)	1,012	55	-510

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

1/ Calculated on the basis of statistical exchange rates of currencies to the U.S. dollar which may result in significant over- or underestimation of balance of payments flows, depending on currency composition and actual movement of currencies against the dollar. Staff calculations suggest that trade flows are underestimated by some 2 percent in 1982 and may be overestimated by a similar amount in 1983.

3/19/84

Table 2. Yugoslavia: Drawings on Medium- and Long-term Debt in Convertible Currency by Creditor

(In millions of U.S. dollars)

	1983 Estimate	1984 Projection
Government packages	796	1,240
Berne	796	390
Refinancing	(304)	(3)
New financial credits	(132)	(40)
Suppliers' credits	(360)	(347)
Geneva	...	850
Refinancing	(...)	(700)
Suppliers' credits	(...)	(150)
Commercial bank package	1,550	1,200
Refinancing	950	1,100
New financing	600	100
IBRD	280	505
Regular facilities	260	250
SAL	20	255
Other multilateral lenders: IFC, EIB and Eurofima	60	50
Suppliers' credits outside Government packages	974	200
Subtotal	3,660	3,195
IMF	590	293 1/
Total	4,250	3,488

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

1/ Total projected purchases under the stand-by arrangement are equivalent to SDR 370 million, but the final purchase from the Fund will not take place until February 1985.

3/19/84

Table 3. Yugoslavia: Repurchase Obligations and Charges Payable to the IMF

(In millions of SDRs)

	Repurchases			Charges
	Total	Present obligations 1/	Proposed stand-by	
1984	269.31	269.31	--	205.3
1985	322.15	322.15	--	204.1
1986	362.50	362.50	--	173.7
1987	385.76	361.38	24.38	132.5
1988	444.37	322.50	121.87	86.9
1989	360.33	239.46	120.63	42.3
1990	155.39	97.88	57.51	13.2
1991	40.01	--	40.01	2.7
1992	5.63	--	5.63	0.2
Total	2,345.18	1,975.18	370.00	860.9

Source: Fund staff estimates.

1/ Including repurchases under the Compensatory Financing Facility of SDR 103.9 million in 1984 and SDR 17.3 million in 1985.

Table 4. Yugoslavia: Medium-Term Scenario 1983-90 1/

(In millions of U.S. dollars)

	1983	1984	1985	1986	1987	1988	1989	1990
1. Current account balance	299	500	700	500	450	450	400	350
2. Increases in reserves (-)	55	-510	-200	-200	-200	-200	-200	-200
3. Amortization of medium- and long-term debt outstanding at end-1983	-2,363	-2,745	-2,385	-2,770	-2,450	-1,720	-880	-410
4. Amortization of new borrowing	--	--	-167	-300	-450	-1,192	-2,214	-2,930
5. Short-term capital through banks	-670	--	-400	100	100	100	100	--
6. Loans extended and errors and omissions	-1,391	-450	-200	-200	-200	-200	-200	-200
7. Net purchases from the Fund	410	10	-243	-380	-404	-465	-377	-163
8. Gross medium- and long-term borrowing (= 1+2+3+4+5+6+7)	3,660	3,195	2,895	3,250	3,154	3,227	3,371	3,553
Of which: Additional borrowing on commercial terms	(600)	(--)	(365)	(1,795)	(1,804)	(1,877)	(2,021)	(2,203)
9. Total debt outstanding at year end (= previous year's level +8+3+4+5+7)	19,525	19,985	19,685	19,585	19,535	19,485	19,485	19,535
Memorandum items:								
Export volume growth (percent change)	13.6	9.4	6.2	4.0	4.0	4.0	4.0	4.0
Interest payments (millions of US$)	1,489	1,650	1,652	1,629	1,624	1,621	1,620	1,624
Debt service ratio (percent of foreign exchange earnings)	32.8	34.9	31.9	33.1	30.4	29.0	27.8	26.4
Ratio of total debt to GSP (percent)	45.2	47.7	43.0	38.9	35.8	33.0	30.5	28.3
Real GSP growth (percent change)	-2.5	0.6	5.1	5.7	4.2	4.1	4.0	3.9
Amortization payments on refinancing packages (millions of US$)	--	--	--	530	530	1,044	1,121	857
1983 package 2/	--	--	--	530	530	530	264	--
1984 package	--	--	--	--	--	514	514	514
1985 package 3/	--	--	--	--	--	--	343	343

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

1/ Based on a small computational model. The calculations are illustrative as they depend crucially on the underlying assumptions which, over the medium term, are ineviatably somewhat arbitrary. The main assumptions are: (i) that the external debt will be kept approximately at the 1983 level in nominal terms; (ii) unitary import elasticity; and (iii) the current account scenario shown in the table and the growth of export volume and of international reserves shown in the memorandum items to the table.

2/ Including US$600 million in new money from banks in 1983, but excluding financial credits and suppliers' credits under the Berne arrangement.

3/ Hypothetical example.

Table 5. Yugoslavia: Gap Analysis Sheet for 1984

(In millions of U.S. dollars)

A. Uses of funds

Medium- and long-term debt repayments (including interest)				-4,395
Of which: 1/	Principal	Interest	Total	
Friends	700	300	1,000	
Other Governments	100	50	150	
Banks	1,400	1,000	2,400	
Other	545	300	845	
Loans extended				-200
Other short-term capital, errors and omissions				-250
Total requirements				-4,845

B. Sources of funds

1. Before negotiation	
Current account (excluding interest)	2,150
IMF credit (net)	10
Berne package (1983)	
Refinancing	3
Financial credits	40
New financing	347
IBRD	
Regular facilities	250
SAL	255
Other multilateral (IFC, EIB, and Eurofima)	50
Total before negotiation	3,105
Gap	-1,740
2. Consolidated and new financing	
Friends (100 percent of principal, 0 percent of interest)	850
Banks (100 percent of principal, 0 percent of interest)	1,200
Other governments) Other)	200
Consolidation subtotal	2,250
Increase in reserves (-)	-510

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

1/ Estimated.

cc: HS
CED

Letter of State Secretary R. Probst
to Minister J. Smole

Dear Mr. Minister,

I would wish to emphasize a point deliberately not mentioned in my summing up but nonetheless considered important by many of the delegations at today's meeting. It is that they welcomed the intention to make further progress in improving the efficiency of the foreign exchange allocation system.

Yours sincerely,

CHAIRMAN'S SUMMING UP

+ Press Communiqué

1. Representatives of Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Italy, Japan, Kuwait, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States met in Geneva on March 24, 1984 under the chairmanship of State Secretary Raymond Probst. The Yugoslav delegation was led by Mr. Janko Smole, member of the Federal Executive Council. Representatives of the International Monetary Fund and the World Bank also attended the meeting. The meeting reviewed economic developments in Yugoslavia. Co-operating Governments confirmed their readiness to act in support of the efforts of the Yugoslav authorities aiming at further improvement of the balance of payments and reserve situation.

2. Participants were encouraged by the success of the stabilisation effort of Yugoslavia and in particular by the evolution of the trade balance with the convertible currency area in 1983 and the first two months of 1984. They welcomed the additional measures contemplated in 1984 and embodied in a proposed stand-by arrangement with the IMF, which has been submitted to the Executive Directors of the IMF for decision before the end of April. They considered that the progress made in improving the performance of the economy and the

further steps now being taken should lead to a rapid return to normal trade and credit relations.

3. Participants noted the proposed arrangements between Yugoslavia and foreign commercial banks. After reviewing experience under the Berne agreement, they confirmed their willingness, as soon as final approval of the stand-by arrangement for 1984 has been given by the Board of the IMF, to restructure for a 7 year period, including a 4 year grace period, 100 percent of maturities of principal falling due in 1984. This restructuring will apply to credits extended by Governments or guaranteed by them, having an original maturity of more than one year, pursuant to contracts conluded before December 2nd, 1982. The Yugoslav authorities confirmed that interest due and all non-consolidated maturities will be paid on due dates.

4. Participants welcomed the intentions expressed about the availability, in present circumstances, of guarantees and export credits during 1984. These included continued short-term cover, medium and long-term credits under agreements made before the Berne package (where applicable), the undisbursed portions of the Berne commitments, and any new credits available. Participants were satisfied that the sums in prospect, together with the other forms of assistance discussed at the meeting, were sufficient to provide the balance of payments financing envisaged in the projections which underlay the proposed IMF programme.

5. Participants supported the preparedness of the World Bank and other multilateral organisations to involve foreign Governments and commercial banks in various forms of co-financing of high priority projects sponsored by these organisations in Yugoslavia as a means of providing additional foreign funding to Yugoslavia.

I.O.

DRAFT 3/18/84

THE NATIONAL BANK OF YUGOSLAVIA

and

CERTAIN OTHER YUGOSLAV BANKING INSTITUTIONS,

as the Obligors

FINANCING AGREEMENT

Dated as of

________________ __, 1984

Guaranteed by

THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA

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47044-00003G04
DRAFT 3/18/84

FINANCING AGREEMENT, dated as of ____________ __, 1984, among:

(1) The National Bank of Yugoslavia, a juridical entity created under the laws of The Socialist Federal Republic of Yugoslavia ("NBY");

(2) The other banking institutions listed on the signature pages hereto under the heading "Obligors", each of which is a banking institution established and existing under the laws of Yugoslavia (collectively with NBY being herein called the "Obligors");

(3) The Creditors (as hereinafter defined);

(4) The Agent (as hereinafter defined); and

(5) The National Bank of Yugoslavia, as the Paying Agent for the Obligors (NBY, in such capacity, being herein called the "Paying Agent").

INTRODUCTORY STATEMENT

A. The purpose of this Financing Agreement is to enable the Creditors to make refunding and consolidating loans to the Obligors, which refunding and consolidating loans will be used to refinance for the term provided herein certain medium-term obligations due to the Creditors.

B. The Creditors are prepared to make refunding and consolidating loans to the Obligors on the terms and conditions hereinafter set forth and are desirous of having the Agent act on their behalf to the extent and in the manner described herein.

NOW, THEREFORE, the parties to this Agreement hereby agree as follows:

ARTICLE I

DEFINED TERMS AND INTERPRETATION

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural of the terms defined):

"Administrative Coordinator" means Peat, Marwick, Mitchell & Co., London, appointed by the Guarantor, the Paying Agent, the Obligors, the Creditors and the Agent, to carry out, with the cooperation of the Social Accounting Service of Yugoslavia, the functions set out in Schedule 1 hereto or such other person who shall be satisfactory to the Majority Creditors, as may, at the request of the Guarantor and the Paying Agent, agree to carry out those functions.

"A Forfait Deduction" means, in relation to an A Forfait Transaction, the interest component on account of the indebtedness due in respect of such A Forfait Transaction, which component (in the case of any such indebtedness with a stated maturity date during 1984) shall be equal to the relevant percentage of such indebtedness set forth below for the currency in which the transaction is denominated, namely:

Austrian Schillings:	_____%
Swiss Francs:	_____%
All other currencies:	_____%

"A Forfait Transaction" means a transaction or series of transactions under which indebtedness (whether or not evidenced by a note or other instrument) of one or more Yugoslav Obligors has been sold on a discount basis one or more times without recourse to the seller under an "a forfait" or equivalent arrangement.

"Affiliate" means, in relation to the Agent or a Creditor, a subsidiary of the Agent or such Creditor, a holding company of the Agent or such Creditor or any subsidiary of any such holding company.

"Agency" means any agency of Yugoslavia or of any of the republics or autonomous provinces thereof.

"Agent" means Manufacturers Hanover Limited or any successor thereto appointed pursuant to and in accordance with the terms hereof.

"Agreement Currency" has the meaning set forth in paragraph (b) of Section 14.07 hereof.

"Applicable Margin" means the Domestic Rate Margin, the Fixed Rate Margin or the Interbank Rate Margin.

"Applicable Taxes" has the meaning set forth in paragraph (a) of Section 15.10 hereof.

"Arrears" means:

(i) the principal of or interest on any External Indebtedness of any Yugoslav Obligor or other Yugoslav Person (other than an individual) due and payable to any Creditor (including, without limitation, any such interest in the nature of an A Forfait Deduction becoming due and payable on the maturity date of the related A Forfait Transaction), other than:

(A) any principal of or interest on Excluded Debt (except any such principal or interest due and payable under the Short-Term Facilities Agreement or the 1983 Financing Agreement);

(B) any such principal or interest due on account of any item of External Indebtedness owing to any Creditor that is not a "Creditor" under the Short-Term Facilities Agreement or a "Creditor" under the 1983 Financing Agreement (as the case may be), provided that at any time during the period from January 17, 1983 to and including December 31, 1983 (I) such item would have constituted an item of "Specified Short-Term Debt" under the Short-Term Facilities Agreement or would have been made subject to, or deemed outstanding under, a "Continuing Credit Facility" thereunder had such Creditor then been a "Creditor" under the Short-Term Facilities Agreement and complied with the provisions thereof or (II) such item would have constituted an "Eligible Principal Payment" under the 1983 Financing Agreement had such Creditor then been a "Creditor" thereunder;

(C) any such principal which constitutes a Principal Payment; or

(D) any such interest due and payable on or after January 18, 1983 as a result of the interest rate applicable to such External Indebtedness having been increased through the operation of any penalty or default clause in any of the instruments or agreements evidencing, governing or otherwise relating to such External Indebtedness solely by reason of a failure on the part of any Original Borrower to pay when scheduled to be due under the Original Governing Agreement therefor as in effect as at the close of business on January 17, 1983 (I) any item of "Specified Short-Term Debt" or "Trade Debt" under the Short-Term Facilities Agreement, (II) any "Eligible Principal Payment" under the 1983 Financing Agreement or (III) any Eligible Principal Payment; and

(ii) fees, costs, expenses or other amounts (except principal or interest, default or otherwise) owing in respect of any External Indebtedness due to any Creditor, including, without limitation, any such amounts owing under any funding or payment indemnity, increased cost, yield protection, foreign or withholding tax, documentary or excise tax, enforcement or other similar clauses in any of the instruments or agreements evidencing, governing or otherwise relating to such External Indebtedness, other than any such amounts in respect of External Indebtedness interest on which is excepted from the coverage of paragraph (i) of this definition pursuant to subparagraphs (A) and (B) thereof;

provided that the principal amounts described in paragraph (i) of this definition are not due as a result of any acceleration of the maturity thereof or any exercise of any right of mandatory or voluntary prepayment.

"Assignee" has the meaning set forth in Section 14.10 hereof.

"Austrian Reference Banks" means the principal Vienna offices of Creditanstalt-Bankverein, Oesterreichische Landerbank AG, and Girozentrale und Bank der Oesterreichischen Sparkassen AG.

"Austrian Schilling Domestic Rate" means a fluctuating rate equal at all times to the average (rounded upwards to the nearest 1/16 of 1%) of the rates quoted from time to time by the Austrian Reference Banks to the Agent as the rate charged from time to time to first-class commercial borrowers in Austria for credit facilities on a current account basis in Austrian Schillings ("Kontokorrentkredit").

"Austrian Schillings" means lawful currency of Austria.

"Banking Day" means a day on which banks are open for domestic and foreign exchange business in Frankfurt, London, Milan, New York, Tokyo, Toronto, Vienna and Zurich.

"Berne Accord" means the "Memorandum of Understanding" concerning Yugoslavia, dated January 19, 1983, recording the understandings reached between the states parties thereto relating to certain indebtedness referred to therein.

"Berne Accord Coordinator" means the Secretary of State of the Federal Department of Foreign Affairs of Switzerland or his authorized representative, acting as the coordinator and reporter of actions taken by the Cooperating States pursuant to the Berne Accord.

"Berne Arrangement" means an arrangement with a Cooperating State pursuant to which such Cooperating State agrees either (i) to make new credit facilities available to a Yugoslav Person or (ii) to extend or refinance existing indebtedness owed to, or guaranteed or insured by, it or one of its agencies by a Yugoslav Person, in either case as contemplated by the Berne Accord and as reported by or on behalf of such Cooperating State to the Berne Accord Coordinator.

"BIS" means the Bank for International Settlements or any successor thereto.

"Bond" means a bond, note (including a floating rate note), or other transferable instrument which was issued under or pursuant to any of those issues or placements (including those identified in Schedule 2 hereto) and which evidences the existence or amount of a Principal Payment (whether such Principal Payment is in the nature of an installment payment in respect of such bond, note or other transferable instrument or arises by virtue of the selection by lot of such bond, note or other transferable instrument to become due from among the class or series of which it is a part).

"Business Day" means a day on which banks are open for domestic and foreign exchange business in Frankfurt, London, New York and Zurich.

"Calculation Date" has the meaning set forth in paragraph (d) of Section 5.06 hereof.

"Canadian Dollar Domestic Rate" means a fluctuating rate equal at all times to the rate of interest per annum publicly announced from time to time by the Canadian Dollar Reference Bank as the prime lending rate then in effect on Canadian Dollar commercial loans in Canada.

"Canadian Dollar Reference Bank" means the principal Toronto office of The Royal Bank of Canada.

"Canadian Dollars" means the lawful currency of Canada.

"Cash Collateralized Debt" means a debt (or the part thereof) the payment or repayment of which was, as at the close of business on January 17, 1983 (or, in the case of any Principal Payment, on the Final Advance Date thereof, if such Final Advance Date is later than January 17, 1983), fully, expressly and effectively secured by an encumbrance securing such debt (or such part thereof) and created specifically for that purpose on Foreign Currency.

"Cooperating State" means one of the following states: Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Italy, Japan, Kuwait, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the United States of America.

"Creditor" means any creditor who is a party to this Agreement to which an Eligible Principal Payment is owed and any person to whom such Creditor's rights and obligations have been transferred pursuant to the terms hereof, provided that each of the New York agencies of Udruzena Beogradska Banka and Jugobanka Udruzena Banka is not a Creditor under this definition. For purposes of the definition of

"Arrears" in this Section 1.01 and paragraph (e) of Section 12.01 hereof, "Creditor" includes an Affiliate of any Creditor which is a bank or financial institution which has been identified by such Creditor in a notice to the Paying Agent (with a copy to the Agent) as an Affiliate to be so included, provided that such notice is given to the Paying Agent before the First Refunding and Consolidating Loan Date.

"Creditor Payment Date" has the meaning set forth in paragraph (d) of Section 5.06 hereof.

"Deutsche Mark" means lawful currency of the Federal Republic of Germany.

"Deutsche Mark Domestic Rate" means the prevailing floating interest rate from time to time of the AKA Ausfuhrkreditgesellschaft GmbH, Frankfurt, for loans from its Ceiling "A", as notified by the Deutsche Mark Domestic Rate Reference Bank to the Agent from time to time.

"Deutsche Mark Domestic Rate Reference Bank" means the principal Dusseldorf office in the Federal Republic of Germany of Westdeutsche Landesbank Girozentrale.

"Deutsche Mark Fixed Rate" means, with respect to each Fixed Rate Refunding and Consolidating Loan denominated in Deutsche Mark, a fixed rate equal at all times to the blended rate prevailing in the German capital market for bearer bonds of the German Landesbanken and DG-Bank Deutsche Genossenschaftsbank for periods comparable to the maturities of the Fixed Rate Refunding and Consolidating Loans denominated in Deutsche Mark to be made on the date of such Fixed Rate Refunding and Consolidating Loan, to be weighted in accordance with the respective aggregate amounts of such maturities, such blended rate to be determined by the Deutsche Mark Fixed Rate Reference Bank one Frankfurt banking day before the date of such Refunding and Consolidating Loan; provided, however, that if the Deutsche Mark Fixed Rate Reference Bank is of the opinion that it is unable to place such bearer bonds on the German capital market on such date with such maturities, such fixed rate shall be equal to the blended rate so determined by the Deutsche Mark Fixed Rate Reference Bank as prevailing in the German capital market for such bearer bonds with such shorter maturities as it is able to so place on the German capital market approximating as closely as possible to the maturities of such Fixed Rate Refunding and Consolidating Loans, and at the expiry of each such shorter maturity a further such blended rate shall be determined in accordance with the above.

"Deutsche Mark Fixed Rate Reference Bank" means the principal Dusseldorf office in the Federal Republic of Germany of Westdeutsche Landesbank Girozentrale.

"Domestic Rate" has, with respect to each currency in which a Domestic Rate Refunding and Consolidating Loan may be made, the meaning set forth below for such currency:

Currency	Domestic Rate
Austrian Schillings	Austrian Schilling Domestic Rate
Canadian Dollars	Canadian Dollar Domestic Rate
Deutsche Mark	Deutsche Mark Domestic Rate
Italian Lire	Italian Lire Domestic Rate
Japanese Yen	Japanese Yen Domestic Rate
Swiss Francs	Swiss Franc Domestic Rate
U.S. Dollars	U.S. Dollar Domestic Rate

"Domestic Rate Refunding and Consolidating Loan" means each Refunding and Consolidating Loan bearing interest based upon a Domestic Rate pursuant to Section 3.05 hereof.

"Domestic Rate Margin" means, with respect to each currency in which a Domestic Rate Refunding and Consolidating Loan may be made, 1-1/2 percent.

"Effective Date" has the meaning set forth in Section 7.02 hereof.

"Eligible Principal Payment" means a Principal Payment owed to a Creditor (directly, by virtue of the exercise or permitted exercise of any right of subrogation or otherwise).

"Events of Default" has the meaning set forth in Article XII hereof.

"Exchange Reference Banks" means, with respect to each currency in which a Refunding and Consolidating

Loan may be made, the principal offices of the banks set forth below in the city in which the Payment Account for such currency is located:

Currency	Exchange Reference Banks
Austrian Schillings	
Canadian Dollars	
Deutsche Mark	
Italian Lire	
Japanese Yen	
Swiss Francs	
U.S. Dollars	

"Excluded Debt" means the principal or its equivalent of any debt (or the part thereof) of a Yugoslav Obligor in respect of which any one or more of the following criteria are satisfied:

(i) such debt constitutes an "Extension Loan" under, or is outstanding under a "Continuing Credit Facility" governed by, the Short-Term Facilities Agreement or constitutes an "Advance" or "Refunding and Consolidating Loan" under the 1983 Financing Agreement;

(ii) such debt is or was incurred on or after January 18, 1983 otherwise than (A) for the purpose, directly or indirectly, subject to paragraph (i) of this definition, of replacing, discharging or refinancing (in whole or in part) a debt which was incurred before January 18, 1983 or (B) pursuant to a written commitment (other than a letter of credit) in effect as at the close of business on January 17, 1983;

(iii) such debt is or was incurred under or in connection with a letter of credit issued or confirmed on or after January 18, 1983, provided that such letter of credit does not directly or indirectly replace (in whole or in part) a letter of credit which was issued or confirmed before January 18, 1983;

(iv) such debt constitutes indebtedness arising out of a contract for the purchase or sale of precious metals;

(v) such debt is or was incurred under a Foreign Exchange Contract;

(vi) such debt is or was part of a debt which arose by reason of a variation having occurred in the rate of exchange between the currency in which such debt is outstanding and the currency by reference to which the amount of such debt is or was quantified when the indebtedness constituted thereby is or was incurred;

(vii) such debt is (A) a Cash Collateralized Debt, (B) a Secured Debt or (C) an inter-bank deposit [which is supported by a counterpart deposit created on approximately the same date as such inter-bank deposit and which is of like amount, tenor and currency];

(viii) such debt constitutes an indemnity payment obligation arising under a provision in the nature of Section 3.08 or 5.09 hereof;

(ix) such debt is indebtedness having a maturity of 12 months or less from the date originally incurred (including, without limitation, any debt due in 1984 which was incurred during the period from January 1, 1983 to January 17, 1983);

(x) such debt constitutes (A) Government Guaranteed Debt or (B) Government Related Debt which has been, or is subject to being, refinanced with the refinancing of the Government Guaranteed Debt to which it is related as contemplated by subparagraph (i) of paragraph (d) of Section 7.03 hereof; or

(xi) such debt arises or arose under a Bond or an A Forfait Transaction wherein the obligor is a Yugoslav Obligor and of which any creditor, other than a bank or a financial institution, was the beneficial owner as at the close of business on January 17, 1983 (or, in the case of any Principal Payment, on the Final Advance Date thereof, if such Final Advance Date is later than January 17, 1983), unless (A) such Bond or A Forfait Transaction was subject as at such close of business to a repurchase agreement by a non-Yugoslav bank or financial institution or (B) a non-Yugoslav bank or financial institution was a surety for such Bond or A Forfait Transaction as at such close of business.

"Exportable Assets" means:

(i) any goods or other tangible property produced or processed in Yugoslavia or owned by a Yugoslav Person which are sold or are capable of being sold, and any Yugoslav Services which are (or are to be) provided, for a consideration consisting wholly or partly of Foreign Currency and the proceeds or intended proceeds thereof;

(ii) any right to receive Foreign Currency as a result of or in connection with any such sale as contemplated in paragraph (i) of this definition; and

(iii) any goods or other tangible property produced or processed in Yugoslavia or owned by a Yugoslav Person and any Yugoslav Services which are exchanged or capable of being exchanged, in whole or in part, for (or as all or part of the consideration for) goods or other tangible property produced or processed or owned by any person outside Yugoslavia or for (or as all or part of the consideration for) services other than Yugoslav Services.

"External Indebtedness" means any indebtedness which the obligor is required to pay (or agrees that such indebtedness shall be, or may be required to be, paid) in currency other than Yugoslav Dinars which constitutes (i) indebtedness for borrowed money or for the deferred purchase price of property, (ii) indebtedness evidenced by a Bond, (iii) indebtedness evidenced by an A Forfait Transaction, (iv) obligations in respect of swap transactions wherein the subject matter of the swap is Foreign Currency or gold or (v) a guarantee or other contingent obligation in respect of indebtedness or obligations described in clauses (i) through (iv) of this definition to the extent that such guarantee or contingent obligation is called upon on or prior to December 31, 1984.

"Extra-majority Creditors" means Creditors (i) during the period before February 18, 1985, having more than 95% in aggregate principal amount of the

Refunding and Consolidating Loans outstanding and the Eligible Principal Payments then constituting Incorporated Debt and (ii) at any time thereafter, having more than 95% in aggregate principal amount of the Refunding and Consolidating Loans outstanding.

"<u>Final Advance Date</u>" means, in relation to any Principal Payment, the date on which the last loan or advance was made on account of the External Indebtedness in respect of which such Principal Payment constitutes a payment or repayment.

"<u>First Refunding and Consolidating Date</u>" means the first Refunding and Consolidating Loan Date.

"<u>Fixed Rate</u>" means the Deutsche Mark Fixed Rate, Japanese Yen Fixed Rate or the Swiss Franc Fixed Rate.

"<u>Fixed Rate Refunding and Consolidating Loan</u>" means each Refunding and Consolidating Loan bearing interest based upon a Fixed Rate pursuant to Section <u>3.04</u> hereof.

"<u>Fixed Rate Margin</u>" means, with respect to each currency in which a Fixed Rate Refunding and Consolidating Loan may be made, 1 ~~1~~ <u>5</u>/8 percent.

"<u>Foreign Currency</u>" means U.S. Dollars or any currency (other than Yugoslav Dinars) which is freely convertible into U.S. Dollars.

"<u>Foreign Exchange Contract</u>" means a contract whereby one person agrees to buy from or sell to another person a Foreign Currency for a consideration consisting wholly of another Foreign Currency.

"<u>Frankfurt Interbank Offered Rate</u>" means, for each Interest Period with respect to each Frankfurt Interbank Offered Rate Refunding and Consolidating Loan, the rate quoted to the Agent by the Deutsche Mark Domestic Rate Reference Bank as the arithmetic mean (rounded upward, if necessary, to the nearest whole multiple of 1/16 of 1%) of the rates at which deposits in Deutsche Mark are offered to each of the Frankfurt Interbank Offered Rate Reference Banks by prime banks in the Frankfurt interbank market on the Quotation Date of such Interest Period for a period equal to such Interest Period and in an amount substantially equal to the amount of the Frankfurt

Interbank Offered Rate Refunding and Consolidating Loan to be outstanding during such Interest Period from such Frankfurt Interbank Reference Bank (or, in the event that such Frankfurt Interbank Reference Bank does not have any such Frankfurt Interbank Offered Rate Refunding and Consolidating Loan, an amount equal to Deutsche Mark 5,000,000).

"Frankfurt Interbank Offered Rate Refunding and Consolidating Loan" means each Refunding and Consolidating Loan bearing interest based upon the Frankfurt Interbank Offered Rate pursuant to Section 3.06 hereof.

"Frankfurt Interbank Reference Banks" means the principal Frankfurt offices in the Federal Republic of Germany of Westdeutsche Landesbank Girozentrale, Bank fuer Gemeinwirtschaft, Aktiengesellschaft and Bankhaus Gebrueder Bethmann.

"Geneva Accord" has the meaning set forth in subparagraph (i) of paragraph (d) of Section 7.03 hereof.

"Geneva Arrangement" means an agreement or other arrangement (including multiple agreements) with a Cooperating State pursuant to which such Cooperating State refinances, or agrees to refinance on conditions which are reasonably capable of being satisfied, on terms complying with the Geneva Accord, 100% of each payment of the External Indebtedness of one or more Yugoslav Obligors referred to in subparagraph (i) of paragraph (d) of Section 7.03 hereof which either is owing to such Cooperating State or constitutes an item of Government Guaranteed Debt in respect of which it is a surety.

"Government Guaranteed Debt" means, for any person, External Indebtedness of such person for which any multilateral or governmental non-Yugoslav entity (including, without limitation, any export credit guarantee agency listed on Schedule 3 hereto) is a surety.

"Government Related Debt" means, in relation to each Creditor, External Indebtedness owed to such Creditor which is not Government Guaranteed Debt and which does not constitute the separate financing of any "down" payment required as a condition to any

Government Guaranteed Debt incurred to finance the import to Yugoslavia of goods or services, but which is otherwise directly related to and owed in conjunction with Government Guaranteed Debt. Example: a bank provides financing for the export of goods to Yugoslavia. 15% of such financing may be in the form of a "down" payment loan and is not guaranteed by a government. The remaining 85% of such financing is a credit guaranteed by a government other than Yugoslavia but the guarantee covers only 95% of the amount of such credit. The 5% of the credit that is a part of but not covered by the benefits of the government guarantee is Government Related Debt and would not be required to be refinanced as a Refunding and Consolidating Loan.

"Guaranteed Obligations" has the meaning set forth in Section 11.01 hereof.

"Guarantor" means The Socialist Federal Republic of Yugoslavia, acting through the Federal Secretariat of Finance.

"Guaranty" means the Guaranty by the Guarantor in favor of the Creditors and the Agent, in substantially the form of Exhibit A hereto.

"IBRD" means the International Bank for Reconstruction and Development or any successor thereto.

"IMF" means the International Monetary Fund or any successor thereto.

"Incorporated Debt" means an Eligible Principal Payment subject to a Refunding and Consolidating Loan Notice filed with the Agent pursuant to the provisions hereof.

"Information Memorandum" means the document entitled "Yugoslavia Economic Information Memorandum" prepared by the Research Centre of NBY and dated ______ ___, 1984.

"Interbank Rate Refunding and Consolidating Loan" means each Refunding and Consolidating Loan bearing interest based upon a LIBO Rate or Frankfurt Interbank Offered Rate pursuant to Section 3.06 hereof.

"Interbank Rate Margin" means, with respect to each Frankfurt Interbank Offered Rate Refunding and Consolidating Loan and each currency in which a LIBO Rate Refunding and Consolidating Loan may be made, 1 5/8 percent.

"Interest Adjustment Amount" has the meaning set forth in Section 3.10 hereof.

"Interest Payment Date" means (i) with respect to each Domestic Rate Refunding and Consolidating Loan, Fixed Rate Refunding and Consolidating Loan or Interbank Rate Refunding and Consolidating Loan, the 18th day of each calendar quarter in each year and the day of payment in full of each such Refunding and Consolidating Loan and (ii) with respect to the principal amount due on account of any such Refunding and Consolidating Loan on any Principal Payment Date, such Principal Payment Date.

"Interest Period" means, with respect to each Interbank Rate Refunding and Consolidating Loan, each of the successive periods into which is to be divided the period between the date of such Interbank Refunding and Consolidating Loan and the date of the repayment thereof in full. The initial Interest Period for each Interbank Rate Refunding and Consolidating Loan shall begin on the day of such Interbank Refunding and Consolidating Loan. Each subsequent Interest Period for such Interbank Refunding and Consolidating Loan shall begin on the last day of the then current Interest Period for such Interbank Refunding and Consolidating Loan hereunder. The duration of each Interest Period for such Interbank Refunding and Consolidating Loan shall be three months or six months, as the Paying Agent may select and advise the Agent in writing at least five Working Days prior to the commencement of such Interest Period (and, in the absence of such advice, the duration of such Interest Period shall be three months), provided that:

(i) subject to paragraphs (ii) and (iii) of this definition, each Interest Period so selected shall end on the 18th day of a calendar quarter (or, if such day is not a Business Day, the next succeeding Business Day) and, in the case of any Interbank Rate Refunding and Consolidating Loan made on other than the 18th day of a calendar quarter (or such next succeeding Business Day), the initial Interest Period for such Interbank Refunding and Consolidating Loan shall end on the next succeeding day which is the 18th day of a calendar quarter (or, if such day is not a Business Day, the next succeeding Business Day);

(ii) any Interest Period which begins prior to any Principal Payment Date and would otherwise end after such Principal Payment Date shall end on such Principal Payment Date with respect to the principal amount due on such Principal Payment Date; and

(iii) the duration of Interest Periods with respect to any overdue amount of or related to any Interbank Rate Refunding and Consolidating Loan shall be one day, one week, one month or three months as the Agent may from time to time select.

"Interest Rate" means, in relation to any Refunding and Consolidating Loan, the sum of the Reference Rate and the Applicable Margin applicable thereto.

"International Monetary Assets" means (i) gold and other bullion, (ii) Foreign Currency, (iii) bank deposits denominated in Foreign Currency and other rights (not being claims on a Yugoslav Person) to receive Foreign Currency, (iv) claims evidenced by government securities denominated in Foreign Currency and (v) any Special Drawing Rights and Reserve Positions in the Fund, for which purpose the phrases "Special Drawing Rights" and "Reserve Positions in the Fund" used herein shall have the meanings set forth (in relation to the types of assets included) in the February, 1984, Edition of the IMF's monthly publication entitled "International Financial Statistics", as the same may be redefined by the IMF.

"Italian Lire" means lawful currency of the Republic of Italy.

"Italian Lire Domestic Rate" means the prevailing floating prime interest rate for commercial lending in Italy as determined by the Associazione Bancaria Italiana and as quoted by the Italian Lire Reference Bank.

"Italian Lire Reference Bank" means the principal Milan office of Istituto Bancario San Paolo di Torino.

"Japanese Yen" means lawful currency of Japan.

"Japanese Yen Domestic Rate" means, with respect to each Domestic Rate Refunding and Consolidating Loan denominated in Japanese Yen, a fluctuating rate equal to the Japanese Long-Term Prime Lending Rate quoted by the Japanese Yen Reference Bank as prevailing on the date of such Refunding and Consolidating Loan and adjusted thereafter semi-annually to the then prevailing Japanese Long-Term Prime Lending Rate as quoted by the Japanese Yen Reference Bank.

"Japanese Yen Fixed Rate" means, with respect to each Fixed Rate Refunding and Consolidating Loan denominated in Japanese Yen, a fixed rate equal at all times to the Japanese Long-Term Prime Lending Rate quoted by the Japanese Yen Reference Bank as prevailing on the day of such Refunding and Consolidating Loan.

"Japanese Yen Reference Bank" means the principal Tokyo office of The Bank of Tokyo, Ltd.

"Judgment Currency" has the meaning set forth in paragraph (b) of Section 14.07 hereof.

"Lending Office" means, with respect to each Creditor for each of its Refunding and Consolidating Loans, the office of such Creditor specified as such in the Refunding and Consolidating Loan Notice for such Refunding and Consolidating Loan, and, subject to paragraph (b) of Section 14.10 hereof, any other office of such Creditor hereafter selected and notified to the Agent and the Paying Agent from time to time by such Creditor.

"LHB" means LHB Internationale Handelsbank. When used in this Agreement (other than when used with respect to Eligible Principal Payments, and Refunding and Consolidating Loans made in respect of Eligible Principal Payments, the Original Governing Agreements for which are syndicated loan agreements), "Creditor" and "bank or financial institution" (or words of similar meaning) do not include LHB.

"LHB Agreement" means the Letter Agreement by LHB and addressed to the Creditors and the Agent, in substantially the form of Exhibit C hereto, pursuant to which LHB agrees to continue to make loans or otherwise extend credit to Yugoslav obligors in amounts which shall be at least equal to, and at times which shall be simultaneous with, repayments received by LHB from Yugoslav Obligors for so long as this Agreement is in effect.

"LIBO Currency" means any of Deutsche Mark, Swiss Francs and U.S. Dollars.

"LIBO Rate" means, for each Interest Period with respect to each currency in which a LIBO Rate Refunding and Consolidating Loan may be made, the average (rounded upward, if necessary, to the nearest whole multiple of 1/16 of 1%) of the rates quoted to the Agent by each of the LIBO Reference Banks as the rate at which deposits in such currency are offered to such LIBO Reference Bank for such currency by prime banks in the London interbank market at approximately 11:00 A.M. (London time) on the Quotation Date of such Interest Period for a period equal to such Interest Period and in an amount substantially equal to the amount of the LIBO Rate Refunding and Consolidating Loan in such currency to be outstanding during such Interest Period from such LIBO Reference Bank (or, in the event that such LIBO Reference Bank does not have any such LIBO Rate Refunding and Consolidating Loan, an amount equal to U.S.$10,000,000 (or its equivalent in such currency)).

"LIBO Rate Refunding and Consolidating Loan" means each Refunding and Consolidating Loan bearing interest based upon a LIBO Rate pursuant to Section 3.06 hereof.

"LIBO Reference Banks" means, with respect to each LIBO Currency, the respective principal London offices of the banks set forth below:

LIBO Currency	Reference Banks
Deutsche Mark	BFG: Luxembourg, S.A. Luxembourg BHF-Bank International Luxembourg WestLB International S.A., Luxembourg
Swiss Francs	Credit Suisse Swiss Bank Corporation Union Bank of Switzerland
U.S. Dollars	Bank of America National Trust & Savings Association Barclays Bank International Limited Manufacturers Hanover Trust Company

"Lien" means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or any preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any obligation.

"London Process Agent" has the meaning set forth in paragraph (c) of Section 14.08 hereof.

"Majority Creditors" means Creditors (i) during the period before the Termination Date, having more than 66-2/3% in aggregate principal amount of the Refunding and Consolidating Loans outstanding and the Eligible Principal Payments then constituting Incorporated Debt and (ii) at any time thereafter, having more than 66-2/3% in aggregate principal amount of the Refunding and Consolidating Loans outstanding.

"New York Process Agent" has the meaning set forth in paragraph (c) of Section 14.08 hereof.

"1984 IMF Stand-by Arrangement" has the meaning set forth in Section 7.01 hereof.

"1983 Event of Default" means an "Event of Default" under the 1983 Financing Agreement or the Short-Term Facilities Agreement.

"1983 Financing Agreement" means the Financing Agreement, dated as of September 9, 1983, among NBY, the other Obligors, the creditors parties thereto, Manufacturers Hanover Limited as the agent for said creditors and the National Bank of Yugoslavia as the receiving and paying agent thereunder, as the same may from time to time be amended, supplemented or otherwise modified in accordance with the terms thereof.

"Notice of Default" means a written communication from any Creditor, addressed to the Agent, which (i) expressly refers to this Agreement, (ii) describes an event or condition, (iii) expressly states that such event or condition is an "Event of Default" hereunder or would constitute such an Event of Default upon the giving of notice hereunder or lapse of time or both or the fulfillment of any other requirement and (iv) requests the Agent to notify the Creditors of such event or condition. Any such Notice of Default may (but need not) be in the form of Exhibit D hereto.

"Original Borrower" means, in relation to any Principal Payment, the Yugoslav Obligor owing such Principal Payment under the Original Governing Agreement thereof.

"Original Governing Agreement" means, in relation to a payment or repayment which is a Principal Payment, the agreement, instrument or other document (whether written or not and whether arising by contract, under a creditor's usual or customary terms of business or otherwise) or instrument creating or evidencing such payment or repayment or pursuant to which the obligation to make such payment or repayment is or was incurred, as the same was in effect as at the close of business on January 17, 1983 (or, in the case of any Principal Payment, on the Final Advance Date thereof, if such Final Advance Date is later than January 17, 1983).

"Other Applicable Taxes" has the meaning set forth in paragraph (c) of Section 5.10 hereof.

"Payment Account" means, with respect to each currency in which a Refunding and Consolidating Loan may be maintained, the special purpose bank account of the Agent (or a special purpose sub-account maintained by the Agent in accordance with its customary controls within the general depository account of the Agent) with the depository specified below for such currency, or such other account as the Agent may designate by notice to the Paying Agent from time to time:

Currency	Depository and Account Name and Number
Austrian Schillings	Creditanstalt Bankverein Vienna: Manufacturers Hanover Limited London 0101-07530/01
Canadian Dollars	Manufacturers Hanover Canada Toronto: Manufacturers Hanover Limited London 6001-000042-500
Deutsche Mark	Manufacturers Hanover Trust Company Frankfurt: Manufacturers Hanover Limited London 0101-080002-101
Italian Lire	Manufacturers Hanover Trust Company Milan: Manufacturers Hanover Limited London 23937/509
Japanese Yen	Manufacturers Hanover Trust Company Tokyo: Manufacturers Hanover Limited London 3401-211623-650
Swiss Francs	Manufacturers Hanover Trust Company Zurich: Manufacturers Hanover Limited London 1701-006999-500
U.S. Dollars	Manufacturers Hanover Trust Company New York: Manufacturers Hanover Limited London Operating Account 544-7-14108

"Payment Date" means any Interest Payment Date or Principal Payment Date.

"Permitted Currency" means Austrian Schillings, Canadian Dollars, Deutsche Mark, Italian Lire, Japanese Yen, Swiss Francs and U.S. Dollars.

"Preferred Currency" means, with respect to each Creditor, the Permitted Currency (other than Austrian Schillings or Italian Lire) [which is specified as the "Preferred Currency" of such Creditor in the first Refunding and Consolidating Loan Notice specifying a "Preferred Currency" of such Creditor. After a Creditor has chosen a "Preferred Currency" in a Refunding and Consolidation Loan Notice, such Creditor may not choose a different "Preferred Currency" in subsequent Refunding and Consolidating Loan Notices.] [which is selected by such Creditor in the exercise of a one-time option as the Permitted Currency in which each of the Refunding and Consolidating Loans to be made by such Creditor in a currency different from the currency in which the related Eligible Principal Payment is denominated is to be made, as such Permitted Currency is specified in the Refunding and Consolidating Loan Notice of such Creditor first filed with the Agent and the Paying Agent pursuant to the provisions hereof with respect to such a Refunding and Consolidating Loan.]

"Principal Payment" means a payment or repayment of External Indebtedness of a Yugoslav Obligor which constitutes principal or its equivalent, which is not Excluded Debt, and which (whether or not evidenced by a debit entry on a current or similar account) has become or becomes due during the period from January 1, 1984 to and including December 31, 1984 in accordance with the stated maturity thereof or would have so become due but for a deferral or acceleration of the due date therefor on or after January 18, 1983. In calculating the principal amount of the obligation constituting the basis for an A Forfait Transaction there shall be included the total amount of the indebtedness due under such obligation less the A Forfait Deduction.

"Principal Payment Date" has the meaning set forth in Section 4.01 hereof.

"Quotation Date" means, in relation to any period for which an interest rate is to be determined hereunder, the date upon which quotations would ordinarily be given by prime banks in the London or Frankfurt interbank market (as the case may be) for deposits for such period and in the currency in relation to which such rate is to be determined for delivery on the first day of that period, provided that, if for any such period quotations would ordinarily be given on more than one day, the Quotation Date for such period shall be the last of those days. As of the date of this Agreement, the Quotation Date with respect to the London interbank market is two Working Days prior to the commencement of such period.

"Reference Bank" means each LIBO Reference Bank and Frankfurt Interbank Reference Bank and each Creditor specified in this Section 1.01 as providing quotations in regard to a Domestic Rate or a Fixed Rate, and any successor.

"Reference Rate" means any Domestic Rate, Fixed Rate, LIBO Rate or Frankfurt Interbank Offered Rate.

"Refunding and Consolidating Loans" means loans made pursuant to Section 2.01 hereof to refund and consolidate Eligible Principal Payments subject to Refunding and Consolidating Loan Notices.

"Refunding and Consolidating Loan Date" means, in relation to any Eligible Principal Payment constituting Incorporated Debt, the first day (i) which is the 18th day of a calendar month (or, if such 18th day is not a Banking Day, the next succeeding Banking Day) and (ii) which follows by at least 10 Working Days the last to occur of the Effective Date, the stated maturity date of such Eligible Principal Payment or the date on which the Refunding and Consolidating Loan Notice relating to such Eligible Principal Payment is filed with the Agent pursuant to the provisions hereof.

"Refunding and Consolidating Loan Notice" means, in relation to any Eligible Principal Payment held by any Creditor, a Refunding and Consolidating Loan Notice among such Creditor, the Original Borrower of such Eligible Principal Payment (or on behalf of such Original Borrower by a Yugoslav bank guarantor of such Eligible Principal Payment or Jugobanka-Udruzena Banka, Ljubljanska Banka-Zdruzena Banka, Privredna Banka Sarajevo-Udruzena Banka, Udruzena Beogradska Banka and Zagrebacka Banka) and the Paying Agent, in substantially the form of Exhibit B hereto.

"Reporting Creditor" has the meaning set forth in paragraph (d) of Section 5.06 hereof.

"Reporting Period" has the meaning set forth in paragraph (b) of Section 15.06 hereof.

"Requisite Creditors" has the meaning set forth in paragraph (a) of Section 13.02 hereof.

"Secured Debt" means a debt (or a part thereof) which, as at the close of business on January 17, 1983 (or, in the case of any Principal Payment, on the Final Advance Date thereof, if such Final Advance Date is later than January 17, 1983), was (i) fully, effectively and expressly secured by, or subject to a financial lease of, movable tangible property or fully, effectively and expressly secured by Foreign Currency revenues or right to receive Foreign Currency income, provided that such debt (or such part) has been identified as a Secured Debt to the Administrative Coordinator (which shall notify the Paying Agent thereof), or (ii) fully, expressly and effectively guaranteed by a non-governmental guarantor which is not a Yugoslav Person and which is not a bank or financial institution.

"Sharing Request" has the meaning set forth in paragraph (a) of Section 15.06 hereof.

"Short-Term Facilities Agreement" means the Short-Term Facilities Agreement, dated as of September 9, 1983, among NBY, the other Obligors, the creditors parties thereto, Manufacturers Hanover Limited as the agent for said creditors and the National Bank of Yugoslavia as the paying agent thereunder, as the same may be amended, supplemented or otherwise modified in accordance with the terms thereof.

"Substitute LIBO Rate" has the meaning set forth in paragraph (a) of Section 13.09 hereof.

"Swiss Franc Domestic Rate" means a fluctuating rate equal at all times to the rate applicable from time to time to three-month fixed-term advances to prime commercial private borrowers ("Feste Blankovorschusse an Kommerzielle Kunden") in accordance with the "Zinskonvenium" of Zurich, as notified to the Agent by the Swiss Franc Domestic Reference Bank.

"Swiss Franc Domestic Reference Bank" means the principal Zurich office of Swiss Bank Corporation.

"Swiss Franc Fixed Rate" means, with respect to each Fixed Rate Refunding and Consolidating Loan denominated in Swiss Francs, a rate equal at all times to ______% [to be completed with the rate equal to 1/2 of 1% plus the issuing rate in respect of seven year cash bonds issued by the Swiss Franc Domestic Reference Bank on the most recent date prior to the date of this Agreement on which such bonds were issued, as quoted by the Swiss Franc Domestic Reference Bank].

"Swiss Francs" means lawful currency of Switzerland.

"U.S. Dollars" or "U.S.$" means lawful currency of the United States of America.

"U.S. Dollar Domestic Rate" means a fluctuating rate equal at all times to the higher from time to time of:

(i) the rate of interest announced publicly by Manufacturers Hanover Trust Company in New York, New York, from time to time as the prime rate of Manufacturers Hanover Trust Company; or

(ii) the sum (adjusted to the nearest 1/8 of one percent or, if there is no nearest 1/8 of one percent, to the next higher 1/8 of one percent) of (a) the rate obtained by dividing (A) the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money center banks, such three-week moving average existing from time to time (adjusted to the basis of a year of 360 days) being determined weekly by the Agent on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of quotations for such rates received by the Agent from three New York certificate of deposit dealers of recognized standing, by (B) a percentage equal to 100% minus the average of the daily percentages specified during such three-week period by the Federal Reserve Board for determining the maximum reserve requirement (including, but not limited to, any basic, supplemental, emergency or marginal reserve requirement) for member banks of the Federal Reserve System in New York City with deposits exceeding U.S.$1,000,000,000 in respect of liabilities consisting of or including (among other liabilities) three-month nonpersonal time deposits of at least U.S.$100,000 plus (b) the average during such three-week period of the daily net annual assessment rates estimated by the Agent for determining the current annual assessment payable by Manufacturers Hanover Trust Company to the Federal Deposit Insurance Corporation for insuring three-month time deposits.

"Working Day" means a day on which banks are open for domestic and foreign exchange business in London and New York.

"Yugoslav Dinars" means lawful currency of Yugoslavia.

"Yugoslav Obligor" means (i) each Obligor, (ii) any Agency or (iii) each corporation, partnership, joint venture, business entity of any kind (including, without limitation, an organization of associated labor), bank or financial institution listed or described on Schedule 4 hereto or any other corporation, partnership, joint venture, business entity of any kind (including, without limitation, an organization of associated labor), bank or financial institution organized or existing under the laws of Yugoslavia or any political subdivision thereof.

"Yugoslav Person" means Yugoslavia, each Agency, each entity which is controlled by Yugoslavia and each person incorporated or resident in Yugoslavia.

"Yugoslav Services" means services rendered by any one or more Yugoslav Persons.

"Yugoslavia" means The Socialist Federal Republic of Yugoslavia.

SECTION 1.02. Interpretation of Terms. Any reference in this Agreement to:

(a) an "agency" of a state shall be construed so as to include any political subdivision, regional government, ministry, department, authority or corporation, statutory or otherwise, which is under the control of any of the foregoing;

(b) "control" or "controlled", with respect to a person, shall mean the power, whether by voting, power of appointment or other decision-making process, by virtue of ownership, either whole or partial, direct or indirect, statutory or otherwise, to direct the management, affairs or policy of such person;

(c) "government securities" shall be construed as a reference to securities issued by any state (or its central bank) or by any agency of a state or group of states;

(d) "indebtedness" or "debt" shall be construed so as to include any obligation (whether incurred or assumed as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;

(e) a "month" is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month (and reference to "months" shall be construed accordingly) except that, where any such period would otherwise end on a day which is not a Business Day, it shall end on the succeeding Business Day, provided that, if a period starts on the last Business Day in a calendar month and if there is no numerically corresponding day in the calendar month in which such period would otherwise end, such period shall end on the last Business Day in such later calendar month;

(f) a "person" shall be construed as a reference to any person, firm, company, corporation, government, state or agency of a state (or group of states) or any association or partnership (whether or not having separate legal personality) of two or more of the foregoing;

(g) a "subsidiary" is a reference to a company of which (i) the composition of the board of directors is controlled, directly or indirectly, by another company and/or (ii) at least half in nominal value of its issued share capital is owned, directly or indirectly, by another company and a reference to its "holding company" is a reference to such other company;

(h) a "surety" or "guarantor" includes any person who has given a guarantee or indemnity, or provided insurance, in respect of another person's indebtedness or has given the functional equivalent thereof under a repurchase agreement or as a contracted purchaser in the event of default or otherwise, and "suretyship" and "guarantee" shall be construed accordingly;

(i) "tax" shall be construed so as to include any tax, levy, impost, duty or other charge of a similar nature (including, without limitation, any penalty or any interest payable in connection with the payment or the failure to pay any of the same); and

(j) a Section, Article, Clause, Schedule or Recital is a reference to a section, article, or clause hereof or a schedule or recital hereto.

SECTION 1.03. Headings. Article and Section headings are for ease of reference only and do not constitute a part of this Agreement.

SECTION 1.04. Banking Terms. Any banking term not specifically defined herein shall be construed in accordance with the general practice of international commercial banks in New York.

SECTION 1.05. Dates Inclusive. Each period which is stated to commence on one date and end on another or to fall between two dates shall be inclusive of both such dates.

SECTION 1.06. Amendments. In this Agreement or in any document delivered pursuant hereto or in connection herewith a reference to this Agreement or any provision hereof shall, unless otherwise expressly stated herein or therein, be construed as a reference to this Agreement or such provision hereof as amended or modified from time to time.

ARTICLE II

REFUNDING AND CONSOLIDATING LOANS

SECTION 2.01. Commitment to Make and Accept Refunding and Consolidating Loans. On the terms and subject to the conditions of this Agreement, each Creditor agrees to make, and the Obligors jointly and severally agree to accept, a Refunding and Consolidating Loan in respect of, and solely for the purpose of substituting the same for, and in full payment of the principal amount outstanding of, each Eligible Principal Payment which has been identified as such in a Refunding and Consolidating Loan Notice executed on behalf of such Creditor, the relevant Obligor or Obligors and the Paying Agent and delivered to the Agent and the Paying Agent. Each Creditor shall apply the proceeds of each Refunding and Consolidating Loan made by it solely in satisfaction of the related Eligible Principal Payment; and, each of the Obligors and the Paying Agent hereby irrevocably authorizes and instructs such Creditor to so apply such proceeds, automatically and contemporaneously, with the making of such Refunding and Consolidating Loan.

SECTION 2.02. Procedures for Making Refunding and Consolidating Loans. (a) Amount and Currency of each Refunding and Consolidating Loan. The amount and currency of each Refunding and Consolidating Loan of each Creditor shall be determined by reference to the Refunding and Consolidating Loan Notice in respect of the related Eligible Principal Payment of such Creditor. Such Refunding and Consolidating Loan shall (i) if the related Eligible Principal Payment was outstanding on the Refunding and Consolidating Loan Date with respect thereto in a Permitted Currency, be in such Permitted Currency or in the Preferred Currency of such Creditor (as specified in the related Refunding and Consolidating Loan Notice) or (ii) if the related Eligible Principal Payment was outstanding on the Refunding and Consolidating Loan Date with respect thereto in a currency other than a Permitted Currency, be in such Preferred Currency (with the amount of such Preferred Currency under either clause (i) or (ii) of this paragraph (a) to be determined, if necessary, by conversion from the currency in which such Eligible Principal Payment was so outstanding in the manner contemplated in paragraph (b) of Section 14.15 hereof).

(b) Refunding and Consolidating Loan Dates. The Refunding and Consolidating Loan in respect of each Eligible Principal Payment constituting Incorporated Debt shall automatically be made and accepted on the Refunding and Consolidating Loan Date for such Eligible Principal Payment, provided that the conditions precedent set forth in Section 7.03 hereof shall have been satisfied as of the First Refunding and Consolidating Loan Date.

(c) Notification of each Refunding and Consolidation Loan. If a Refunding and Consolidating Loan shall be made in a currency other than the currency in which the related Eligible Principal Payment is denominated on the Refunding and Consolidating Loan Date therefor, the relevant Creditor shall promptly notify the Agent of the principal amount of such Refunding and Consolidating Loan and then the Agent shall notify the relevant Creditor and the Paying Agent before the relevant Refunding and Consolidating Loan Date of the exchange rate determined pursuant to paragraph (b) of Section 14.15 hereof which is to be used by such Creditor in making such Refunding and Consolidating Loan.

SECTION 2.03. Refunding and Consolidating Loan Notices. (a) Completion. Each Refunding and Consolidating Loan Notice shall have been executed by the relevant Yugoslav Obligor (or by the Yugoslav bank or financial institution which is a guarantor of such Eligible Principal Payment or by one of the Obligors specified in the definition of "Refunding and Consolidating Loan Notice" on behalf of such relevant Yugoslav Obligor) and the Creditor to whom it is directed, shall be countersigned by the Paying Agent, acting on behalf of the Obligors, shall be initialled by the Administrative Coordinator and shall be received by the Agent and the Paying Agent. Subject to the provisions of Section 7.02 hereof, when a fully completed Refunding and Consolidating Loan Notice, executed as provided herein, shall be received by the Agent and the Paying Agent, it shall be deemed effective. For the purposes of this Agreement, the Agent and the Paying Agent shall be entitled to rely conclusively on any such Refunding and Consolidating Loan Notice. Each of the parties hereto shall use its best efforts to complete and deliver Refunding and Consolidating Loan Notices in respect of Eligible Principal Payments owed by or to it as soon as possible, and in any event, no Refunding and Consolidating Loan Notice shall be effective unless received by the Agent and the Paying Agent on or prior to February __, 1985.

(b) Accuracy of Refunding and Consolidating Loan Notices. Each of the parties to each Refunding and Consolidating Loan Notice agrees to assure the accuracy of the factual information contained therein as of the date thereof, and each such party agrees that the information contained therein may be relied upon by the other parties to this Agreement.

SECTION 2.04. Interest On Eligible Principal Payments. Until the date a Refunding and Consolidating Loan is made in respect thereof, each Eligible Principal Payment shall bear interest at the contractual non-default basis provided for with respect thereto in the Original

Governing Agreement therefor, subject to adjustment as provided in Section 3.10 hereof (which adjustment may be made prior to the date the amount of such adjustment is required to be paid pursuant to said Section 3.10). Such interest shall be payable directly to or for the account of the relevant Creditor in accordance with such Original Governing Agreement. Each Creditor will, for the period (if any) which is after the Effective Date and is between the maturity date of any Eligible Principal Payment held by it and the Refunding and Consolidating Loan Date therefor, endeavor to fund such Eligible Principal Payment in a manner which will minimize any funding indemnity obligations which might otherwise arise from the discharge of such Eligible Principal Payment on such Refunding and Consolidating Loan Date.

SECTION 2.05. Assignment of Eligible Principal Payments. A Creditor may assign an Eligible Principal Payment which has been identified as such in a Refunding and Consolidating Loan Notice by the designation of an assignee in the space included in such Refunding and Consolidating Loan Notice for the specification of the Lending Office which is to maintain the related Refunding and Consolidating Loan, provided that the assignee so designated is an Affiliate of such Creditor and a party to this Agreement. The designation of such an assignee in a Refunding and Consolidating Loan Notice shall be conclusive evidence of the assignment of the Eligible Principal Payment identified in such Refunding and Consolidating Loan Notice as of the Refunding and Consolidating Loan Date of such Eligible Principal Payment. The assignee of an Eligible Principal Payment shall be bound by the terms of the Refunding and Consolidating Loan Notice in which the Eligible Principal Payment is assigned (including, without limitation, the designation of the currency in which the related Refunding and Consolidating Loan is to be made and the Reference Rate to be applicable thereto). An assignment made in a Refunding and Consolidating Loan Notice on account of the Eligible Principal Payment identified therein shall be made without recourse and without representation or warranty, express or implied.

ARTICLE III

FEES AND INTEREST

SECTION 3.01. Facility Fee. The Obligors jointly and severally agree to pay to each Creditor a facility fee in U.S. Dollars on account of the Refunding and Consolidating Loans contemplated to be made by such Creditor hereunder in satisfaction of Eligible Principal Payments constituting Incorporated Debt. Such facility fee shall be in the amount of 7/8% of each such Refunding and Consolidating Loan. Such facility fee shall be payable on the Refunding and Consolidating Loan Date for such Refunding and Consolidating Loan. For the purposes of calculating the facility fee payable on account of any Refunding and Consolidating Loan to be made in a currency other than U.S. Dollars, the currency exchange rate to be used shall be determined pursuant to paragraph (c) of Section 14.15 hereof.

SECTION 3.02. Agency Fee. [The Obligors jointly and severally agree to pay to the Agent an annual fee in respect of the Refunding and Consolidating Loans of each Creditor, which annual fee shall be U.S.$ __ per Creditor for the first year and U.S.$ __ per Creditor for each subsequent year, each of which annual fees shall be payable on the day 10 Working Days after the Effective Date and on each anniversary thereof so long as any Refunding and Consolidating Loan of such Creditor shall remain outstanding in whole or in part].

SECTION 3.03. Applicable Interest Rate. The Interest Rate applicable to each Refunding and Consolidating Loan to be made by each Creditor shall at all times be the Interest Rate based upon the Reference Rate set forth in the Refunding and Consolidating Loan Notice for such Refunding and Consolidating Loan, provided that, in each case, such Reference Rate is one of the following Reference Rates applicable to such currency:

Currency	Reference Rate Options
Austrian Schillings	Domestic Rate
Canadian Dollars	Domestic Rate

Deutsche Mark	Domestic Rate Fixed Rate Frankfurt Interbank Offered Rate LIBO Rate
Italian Lire	Domestic Rate
Japanese Yen	Domestic Rate Fixed Rate
Swiss Francs	Domestic Rate Fixed Rate LIBO Rate
U.S. Dollars	Domestic Rate LIBO Rate

Each Creditor agrees that it will select with respect to all its Refunding and Consolidating Loans made in any one currency the same Reference Rate. The Reference Rate designated in a Refunding and Consolidating Loan Notice may not be changed.

SECTION 3.04. Interest on Fixed Rate Refunding and Consolidating Loans. The Obligors jointly and severally agree to pay interest on the unpaid principal amount of each Fixed Rate Refunding and Consolidating Loan at the rate equal at all times to the sum of (a) the Fixed Rate applicable to the currency in which such Refunding and Consolidating Loan is made and (b) the Fixed Rate Margin, provided that interest on any overdue principal amount shall be payable as provided in Section 3.08 hereof.

SECTION 3.05. Interest on Domestic Rate Refunding and Consolidating Loans. The Obligors jointly and severally agree to pay interest on the unpaid principal amount of each Domestic Rate Refunding and Consolidating Loan at a fluctuating rate equal at all times to the sum of (a) the Domestic Rate from time to time in effect for the currency in which such Refunding and Consolidating Loan is made and (b) the Domestic Rate Margin, provided that interest on any overdue principal amount shall be payable as provided in Section 3.08 hereof.

SECTION 3.06. Interest on Interbank Rate Refunding and Consolidating Loans. The Obligors jointly and severally agree to pay interest on the unpaid principal amount of each Interbank Rate Refunding and Consolidating

Loan at a rate equal at all times during each Interest Period to the sum of (a) the Frankfurt Interbank Offered Rate for such Interest Period or the LIBO Rate for such Interest Period applicable to the currency in which such Refunding and Consolidating Loan is made (as the case may be) and (b) the Interbank Rate Margin, provided that interest on any overdue principal amount shall be payable as provided in Section 3.08 hereof.

SECTION 3.07. General Interest and Fee Provisions. (a) Computation and Payment of Interest and Fees. Interest on the unpaid principal amount of each Refunding and Consolidating Loan shall accrue during the period from the date of such Refunding and Consolidating Loan to the date such principal amount is paid in full. Interest on each Refunding and Consolidating Loan shall be paid in arrears on each Interest Payment Date. Each interest rate specified in this Agreement is a per annum percentage rate. All computations of interest shall be made on the basis of a year of 360 days for the actual number of days (including the first day but excluding the last day) occurring in the period for which interest is payable.

(b) Determination of Interest Rates. Any Interest Rate based upon a Reference Rate to be determined by the Agent on the basis of quotations received by the Agent from the relevant Reference Banks at any time or from time to time shall be so determined. Each Reference Bank agrees to advise the Agent promptly by telephone, telex, telegram or cable of the applicable rate to be furnished by it to the Agent. If any one or more of the relevant Reference Banks shall not so furnish a quotation of the applicable rate to the Agent for any relevant period, such Reference Rate for such period shall be based upon the quotations furnished to the Agent by the other relevant Reference Banks (if any). The Agent shall give notice by telex to the Paying Agent and each Creditor maintaining Refunding and Consolidating Loans subject to the Interest Rate based upon such Reference Rate of such Reference Rate and such Interest Rate, and such notice shall be conclusive and binding for all purposes, in the absence of manifest error.

(c) Notice of Interest Due; Interest Payments. The Agent shall notify the Paying Agent by telex at least 10 Working Days before each Interest Payment Date of the aggregate amount of interest payable in each currency to the Creditors entitled thereto on such Interest Payment Date, which notice shall be conclusive and binding for purposes of payment, in the absence of manifest error, and be *prima facie* evidence of the liability of the Obligors therefor, but no failure to give such notice shall affect the obligation of the Obligors or the Paying Agent to pay such interest when due under this Agreement. On each Interest Payment Date, subject to Section 15.02 hereof, the Obligors jointly and severally agree that they will pay to the Agent by payment to the relevant Payment Account for distribution to the appropriate Creditors the accrued interest which shall be due and payable by them in each currency.

(d) Adjustments for Interest Rate Fluctuations. In computing the amount of interest payable on any Interest Payment Date by the Obligors in respect of Refunding and Consolidating Loans subject to the Domestic Rate for any currency, no fluctuations in any such rate occurring after the day 15 Working Days before such Interest Payment Date shall be taken into account. The difference between the amount of interest with respect to such Refunding and Consolidating Loans so computed to be payable by the Obligors on any such Interest Payment Date (other than the last such Interest Payment Date) and the amount that would have been payable had fluctuations in the applicable Domestic Rate been taken into account up to such Interest Payment Date shall be added to, in the case of any underpayment, or subtracted from, in the case of any overpayment, the amount of interest payable by the Obligors on the next succeeding Interest Payment Date.

(e) Substitution of Reference Banks. Any Reference Bank may resign upon written notice to the Agent, *provided* that in no event shall any such resignation be effective until a successor Reference Bank is appointed and agrees to act hereunder. Promptly upon receipt of notice of resignation by any Reference Bank, the Agent shall, after consultation with the Paying Agent and with the approval of the Requisite Creditors with respect to the Refunding and Consolidating Loans the Interest Rate applicable to which is determined, in part, by quotations from such Reference Bank, appoint a successor Reference Bank and notify the Creditors and the Obligors of such appointment. Such appointment shall be effective when such successor Reference Bank agrees in writing to act as a Reference Bank hereunder.

SECTION 3.08. Overdue Amounts. (a) Interest on Overdue Amounts. In the event that any principal of or interest on any Refunding and Consolidating Loan or other amount due hereunder is not paid when due, the Obligors shall pay interest on such unpaid principal amount or (to the extent permitted by applicable law) unpaid interest or other amount from the date such amount is due to the date such amount is paid in full, payable on demand, at a rate equal to the sum of 1% plus the rate of interest payable on such Refunding and Consolidating Loan under Section 3.04, 3.05 or 3.06 hereof.

(b) Loss Indemnity. Without prejudice to the rights of any Creditor under the provisions of paragraph (a) of this Section 3.08, the Obligors jointly and severally agree to indemnify each Creditor against any loss or expense (other than any loss of anticipated profit) which it may sustain or incur as a result of the failure by the Obligors to pay when due any principal of or interest on any Refunding and Consolidating Loan or any other amount payable hereunder, to the extent (but only to the extent) that any such loss or expense is not recovered pursuant to said paragraph (a). A certificate of any Creditor setting forth the basis for the determination of any amount necessary to indemnify such Creditor in respect of any such loss or expense submitted to the Paying Agent and the Agent shall be conclusive and binding, in the absence of manifest error.

SECTION 3.09. Alternative Rates for Interbank Rate Refunding and Consolidating Loans. (a) Substitute LIBO Rate. If either (i) the Agent receives notice on or before any date on which a LIBO Rate is to be determined by the Agent pursuant to this Article III from over 50% of the LIBO Reference Banks that deposits in any currency are not being offered to such LIBO Reference Banks by prime banks in the London interbank market for the applicable Interest Period or in the applicable amounts, or (ii) the Agent receives notice not later than 3:00 P.M. (London time) on the second Working Day of the applicable Interest Period from Creditors having 50% of the LIBO Rate Refunding and Consolidating Loans for which an interest rate has been determined for such Interest Period for any currency that the LIBO Rate for such currency will not adequately reflect the cost to such Creditors of making, funding or maintaining for the applicable Interest Period the unpaid amounts of their respective LIBO Rate Refunding and Consolidating Loans, the Agent shall forthwith give notice of such event to the Paying Agent and each Creditor having LIBO Rate Refunding and Consolidating Loans in such currency. Within 30 days following the date of any such notice by the Agent, the Agent (after consultation with each Creditor having LIBO Rate Refunding and Consolidating Loans in such currency) and the Paying Agent shall enter into negotiations in good faith with a view to agreeing to an alternative basis acceptable to such Creditors and the Obligors for determining the interest rate which shall be applicable during such Interest Period for the LIBO Rate Refunding and Consolidating Loans in such currency and which shall reflect the cost to the Creditors having LIBO Rate Refunding and Consolidating Loans in such currency of funding such LIBO Rate Refunding and Consolidating Loans for such Interest Period from alternative sources <u>(such interest rate being herein called the "Substitute LIBO Rate" for such currency)</u> <u>plus</u> the Interbank Rate Margin. If, at the expiration of 30 days from the giving of any such notice by the Agent, the Agent and the Paying Agent have agreed to such Substitute LIBO Rate for such currency and the Requisite Creditors and the LIBO Reference Banks have concurred therein, such Substitute LIBO Rate shall take effect with respect to such Interest Period from the beginning thereof.

(b) <u>Non-Agreement on Substitute LIBO Rate</u>. If, at the expiration of 30 days from the giving of any notice by the Agent provided for in paragraph (a) of this Section <u>3.09</u>, the Agent, the Requisite Creditors, the LIBO Reference Banks and the Paying Agent shall not have agreed to any Substitute LIBO Rate for the relevant currency, the Agent shall (after consultation with each Creditor having LIBO Rate Refunding and Consolidating Loans in such currency) give notice to the Paying Agent and each such Creditor of the rate of interest payable for the applicable Interest Period on each LIBO Rate Refunding and Consolidating Loan in such currency. Such notice shall set forth the computations made by the Agent in determining such rate of interest, which computations shall be made in good faith and shall reflect the actual cost to each Creditor having LIBO Rate Refunding and Consolidating Loans in such currency (as determined and notified to the Agent by such Creditor) of funding for such Interest Period such LIBO Rate Refunding and Consolidating Loans from alternative sources <u>plus</u> the <u>Interbank</u> Rate Margin, <u>provided</u> that if such interest rate shall not, in the good faith opinion of any Creditor, cover its actual cost of funding its LIBO Rate Refunding and Consolidating Loans from alternative sources <u>plus</u> the <u>Interbank</u> Rate Margin, such Creditor may demand through the Agent from the Paying Agent such additional amounts as are necessary to cover such cost <u>plus</u> the <u>Interbank</u> Rate Margin, and any such demand in reasonable detail shall be conclusive and binding, in the absence of manifest error. The Obligors jointly and severally agree to pay interest computed pursuant to this paragraph (b) on account of applicable LIBO Rate Refunding and Consolidating Loans until such time as the LIBO Reference Banks are satisfied that a reasonable LIBO Rate shall be available with respect to deposits in the relevant currency in the London interbank market.

(c) Repetition of Alternative Rate Fixing. If, at the commencement of any Interest Period next succeeding an Interest Period as to which an interest rate has been determined pursuant to paragraph (a) or (b) of this Section 3.09, one of the events referred to in clause (i) or (ii) of said paragraph (a) continues without remedy, the provisions of this Section 3.09 shall again be applicable.

(d) Substitute Frankfurt Interbank Offered Rate. The provisions of paragraphs (a), (b) and (c) of this Section 3.09 shall apply *mutatis mutandis* with respect to the Frankfurt Interbank Offered Rate.

SECTION 3.10. Adjustment of Interest on Eligible Principal Payment. (a) Agreement to Make Adjustment in Favor of a Creditor. The Obligors jointly and severally agree with each Creditor with respect to each Eligible Principal Payment held by such Creditor that, on the Refunding and Consolidating Loan Date of such Eligible Principal Payment, an adjustment will be made on account of the interest paid or payable on such Eligible Principal Payment for the period from the maturity date of such Eligible Principal Payment to such Refunding and Consolidating Loan Date. The amount of such adjustment (the "Interest Adjustment Amount" for such Eligible Principal Payment) will be equal to the excess (if any) of (i) the interest that would have been payable on such Eligible Principal Payment for such period had the margin included within the interest rate applicable thereto been the same as the Applicable Margin included within the Interest Rate applicable to each Refunding and Consolidating Loan the Interest Rate for which is determined by reference to the same (or to substantially the same) base rate as the interest rate applicable to such Eligible Principal Payment for such period (or, in the case of any Eligible Principal Payment denominated in a currency which is not a Permitted Currency, a margin which is equal to 1-1/2%, unless such Eligible Principal Payment bears interest at a rate based upon an interbank or money market rate, in which event the applicable margin will be 1-5/8%) over (ii) the interest actually paid thereon (pursuant to

Section 12.04 or otherwise), or, if such interest has not been paid, the interest payable on such Eligible Principal Payment (exclusive of any portion of such interest payable representing interest computed on an enhanced post default rate), for such period under the terms of its Original Governing Agreement; provided, however, that nothing in this Section 13.10 shall affect the right (if any) of any Creditor under law or the relevant Original Governing Agreement to calculate the interest payable on any Eligible Principal Payment owing to it for the period from the maturity date of such Eligible Principal Payment to the Refunding and Consolidating Loan Date thereof by reference to a non-default base rate (including a non-default base rate which is the cost of funds for such Creditor) different from the non-default base rate on the basis of which interest was payable on such Eligible Principal Payment for the period prior to such maturity date. Such adjustments will be made by the Obligors making payments to such Creditor immediately upon an agreement being made between the Obligors and such Creditor as to such Interest Adjustment Amount, but in any event prior to the later of the date 90 days from the Effective Date or the Refunding and Consolidating Loan Date for such Eligible Principal Payment. In the event of a dispute between the Obligors and any Creditor as to the Interest Adjustment Amount payable to such Creditor in respect of any Eligible Principal Payment on the date when such Interest Adjustment Amount is required to be paid, the amount claimed by the Creditor to be payable shall be placed in escrow as contemplated in Section 14.16 hereof for subsequent payment.

(b) Other Agreements with respect to Interest Adjustments. Each Creditor hereby agrees with and for the benefit of each Original Borrower from whom such Creditor is owed an Eligible Principal Payment (any such Original Borrower who is not a party hereto being hereby expressly stated to be a third-party beneficiary of this paragraph (b)) that on the first Interest Payment Date to occur on or after the Refunding and Consolidating Loan Date of such Eligible Principal Payment such Creditor will pay to such Original Borrower an amount equal to the excess (if any) of (i) any interest actually received during the period from the maturity date of such Eligible Principal Payment to such Refunding and Consolidating Loan Date as interest computed on an enhanced post default rate in relation to such Eligible Principal Payment under its Original Governing Agreement over (ii) the interest that would have been payable on such Eligible Principal Payment for such period had the margin included within the interest rate applicable thereto been the same as the Applicable Margin included within the Interest Rate applicable to each Refunding and Consolidating Loan the Interest Rate for which is determined by reference to the same (or to substantially the same) base rate as the interest rate applicable to such Eligible Principal Payment (or, in the case of any Eligible Principal Payment denominated in a currency which is not a Permitted Currency, a margin which is equal to 1-1/2%, unless such Eligible Principal Payment bears interest at a rate based upon an interbank or money market rate, in which event the applicable margin will be 1-5/8%).

(c) Procedure for Adjustments. Each of the parties to this Agreement agrees to cooperate in the process of reconciling claims for amounts due under this Section 3.10 and for Arrears contemplated to be paid pursuant to paragraph (b) of Section 7.03 hereof and, in connection therewith, to provide promptly to the Administrative Coordinator all information and documents necessary to enable the Administrative Coordinator to assist in the resolution of any dispute. The costs and expenses reasonably incurred by the Creditors in such process (including, without limitation, the fees and expenses of the Administrative Coordinator relating to such process) shall be for the joint and several account of the Obligors, provided that such costs and expenses (other than such fees and expenses of the Administrative Coordinator) shall be for the account of the Obligors only to the extent that they arise after the Administrative Coordinator has completed its reconciliation procedures.

ARTICLE IV

PROVISIONS FOR REPAYMENT OF PRINCIPAL

SECTION 4.01. Stated Payments. The Obligors jointly and severally agree to repay to each Creditor the principal amount of each Refunding and Consolidating Loan made by such Creditor in seven consecutive semi-annual installments, on the 18th day of each April and October, commencing on April 18, 1988 and ending on April 18, 1991 (each such date being herein called a "Principal Payment Date"). Each installment shall be in the amount of one-seventh of the principal amount of such Refunding and Consolidating Loan as of the Refunding and Consolidating

Loan Date applicable thereto (or as near to such amount as may be practicable), provided that the last such installment shall be in the amount necessary to repay in full the unpaid principal amount of such Refunding and Consolidating Loan.

SECTION 4.02. Mandatory Prepayments. (a) Making of Application. If, at any time during the period from [January 18, 1983] to the date hereof, any Obligor, the Guarantor or any other Yugoslav Obligor or any corporation or other business entity (whether Yugoslav or non-Yugoslav) which is owned or controlled by a Yugoslav Obligor has caused or allowed, or if at any time thereafter any Obligor, the Guarantor or any other Yugoslav Obligor or any such corporation or business entity shall cause or allow, directly or indirectly, any International Monetary Assets or Exportable Assets to be applied in satisfaction (in whole or in part) of any Principal Payment (other than an Eligible Principal Payment in respect of which a Refunding and Consolidating Loan has been made), the provisions of paragraph (b) of this Section 4.02 shall be applicable; provided, however, that such provisions shall not be applicable:

(i) if such application has been or shall be in satisfaction of any Principal Payment (A) owing to a Cooperating State, (B) owing to the BIS, the IMF, the IBRD or any other comparable international financing organization or (C) in the nature of indebtedness for the deferred purchase price of property or services and owing to a person (other than a bank or financial institution) furnishing or supplying such property or services;

(ii) if, after giving effect to such application, (A) the fraction the numerator of which is the remaining principal amount of the Principal Payment to which such application has been made and the denominator of which is what the outstanding principal amount of such Principal Payment was as at the close of business on January 17, 1983 (or on the Final Advance Date of such Principal Payment, if such Final Advance Date is later than January 17, 1983) is not less than (B) the fraction the numerator of which is the remaining principal amount of any Refunding and Consolidating Loan and the denominator of which is what the outstanding principal amount of the Eligible Principal Payment relating thereto was at the close of business on January 17, 1983 (or on the Final Advance

Date of such Eligible Principal Payment, if such Final Advance Date is later than January 17, 1983);

(iii) if, during the period from the date of such application to the First Refunding and Consolidating Loan Date, the person holding such Principal Payment as at the date of such application shall have made a loan or advance to the Original Borrower of such Principal Payment (or to an Obligor in the place of such Original Borrower) in the amount of such application with the effect of restoring to such Original Borrower (or such Obligor) such Principal Payment; or

(iv) if such Principal Payment is a payment to a person not a Creditor with respect to External Indebtedness which would have constituted Secured Debt if owed to a Creditor were the details thereof to have been identified to the Administrative Coordinator as contemplated by the proviso to clause (i) of the definition of "Secured Debt" in Section 1.01 hereof.

(b) Effect of Application. Upon the provisions of this paragraph (b) becoming applicable as provided in paragraph (a) of this Section 4.02, the Agent shall, if and upon being so instructed by the Majority Creditors, (i) make demand of the Obligors for ratable mandatory prepayments of the Refunding and Consolidating Loans then outstanding in an aggregate amount of up to an amount equal to that proportion of the Refunding and Consolidating Loans outstanding as of February 18, 1985 which is the same as the proportion obtained by dividing (A) the amount of the application of International Monetary Assets or Exportable Assets causing the provisions of this paragraph (b) to become applicable (after deducting therefrom any part of such application which would not by itself have caused the provisions of this paragraph (b) to become applicable) by (B) the amount of the Principal Payment to which such application has been made as such amount was outstanding as at the close of business on January 17, 1983 (or on the Final Advance Date of such Principal Payment, if such Final Advance Date is later than January 17, 1983) and (ii) if such application shall be made on or before February 18, 1985, make demand of the Obligors for a mandatory prepayment on each Refunding and Consolidating Loan Date after the date of such demand of the Refunding and Consolidating Loans made on such Refunding and Consolidating Loan Date in an aggregate amount of up to an amount equal to that proportion of such which is the same as the proportion obtained by dividing (A) the amount of the application of International Monetary Assets or Exportable Assets causing the provisions of this paragraph (b) to become applicable (after deducting therefrom any part of such application which would not by itself have caused the provisions of this paragraph (b) to become applicable) by (B) the amount of the Principal Payment to which such application has been made as such amount was outstanding as at such close of business./ Any demands made pursuant to the provisions of this paragraph (b) shall be made ratably with regard to the outstanding Refunding and Consolidating Loans and, if such demand is made on or before February 18, 1985, the Refunding and Consolidating Loans to be made after the date of such demand; and each such demand shall be made on the Obligors by notice to the Paying Agent.

(c) Refinancing or Extension of Eligible Principal Payments Not Covered By This Agreement. The Obligors jointly and severally represent and warrant to, and agree with, each Creditor and the Agent that any agreement or commitment to which any of them is or becomes a party, or by which any of them is or becomes bound, that provides for the deferral, refinancing or extension of any Principal Payment which is not an Eligible Principal Payment or a Principal Payment described in subparagraph (i) or (ii) of paragraph (a) of this Section 4.02 will not include terms with regard to tenor, principal installment dates and amounts or fees or interest rates that are more favorable to the creditor or creditors parties thereto than the tenor, principal installment dates and amounts or fees or interest rates applicable to the Refunding and Consolidating Loans.

SECTION 4.03. Voluntary Prepayments. The Obligors may, upon giving the Agent irrevocable prior written notice at least thirty days before the date thereof, prepay the outstanding aggregate principal amount of the Refunding and Consolidating Loans in whole or ratably in part on the last day of any Interest Period, provided that (a) each whole or partial prepayment of any Refunding and Consolidating Loans shall be made and applied simultaneously and ratably to all Refunding and Consolidating Loans (as the case may be) in the currency of each such Refunding and Consolidating Loan, (b) each partial prepayment of the Refunding and Consolidating Loans shall be in an amount not less than the equivalent of U.S.$25,000,000 and (c) partial prepayments shall be applied to the principal installments of each Refunding and Consolidating Loan in the inverse order of maturity.

ARTICLE V

GENERAL PAYMENT PROVISIONS

SECTION 5.01. Currency of Payment. All payments of principal of and interest on each Refunding and Consolidating Loan shall be made by the Obligors through the Paying Agent for the joint and several account of the Obligors in the currency in which such Refunding and Consolidating Loan is made. Each other payment by the Obligors shall be made through the Paying Agent for the joint and several account of the Obligors in U.S. Dollars or in such other currency as is specified hereunder for such other payment or in which the same are otherwise denominated when due for payment.

SECTION 5.02. Procedures for Payments. (a) Type of Funds and Place of Payment. Each payment in each currency shall be made in freely transferable funds and shall be made in same day funds or such other funds as may at the time of payment be customary in the place of payment for the settlement of international payments in such currency. Each payment on account of principal, interest, fees or any other obligation of any Obligor hereunder shall be made in the relevant currency and shall be made in time to be credited in accordance with normal banking procedures in the place of payment to the Payment Account for such currency prior to 11:00 A.M. (local time) on the day payment is due and in any event, in order to assure timely payment, the funds required to make any such payment (other than any such payment on account of the facility fees, the agency fee or the costs and expenses payable pursuant to Section 14.05 hereof) shall be on deposit with the Agent in the Payment Account at least three Banking Days prior to the date such payment must be made to one or more Creditors. The Agent agrees that, to the extent practicable in its sole discretion, it will invest any funds so placed on deposit in any Payment Account with prime banks in the local interbank call market (or any similar market) in the city in which such Payment Account is located (but the Agent shall not be liable for any investment losses) and, whenever no obligations of the Obligors are owing hereunder, pay over the earnings on such funds to the Paying Agent for the account of the Obligors.

(b) Special Purpose Payment Account. Each Payment Account shall be a special purpose account for the sole benefit of the Creditors and the Agent from which the sole application of credit shall be by the Agent and shall be in accordance with the provisions of this Agreement. Each payment by the Paying Agent or an Obligor into a Payment Account shall be for the special purpose of payment to the Agent and the Creditors and shall be the property of the Agent and such Creditors entitled thereto from the time of such payment.

(c) Payments to Agent. Each payment of (i) facility fees payable pursuant to Section 3.01 hereof, (ii) the agency fee payable pursuant to Section 3.02 hereof, (iii) interest on and principal of the Refunding and Consolidating Loans, (iv) costs and expenses payable pursuant to Section 14.05 hereof and (v) any other amount which the relevant provision hereof expressly requires to be paid to the Agent shall be paid to the Payment Account for the relevant currency for the account of the party or parties entitled thereto.

(d) Notice of Payment Dates. At least 10 Working Days before the day on which a payment hereunder is required to be standing to the credit of the relevant Payment Account pursuant to paragraph (a) of this Section 5.02 (except that, in the case of any such payment on account of the facility fees payable on any Refunding and Consolidating Loan Date, such period shall be at least one Working Day), the Agent shall notify the Paying Agent of the total amount of such payment and in doing so shall identify separately sums owed in respect of principal, interest, fees and other obligations, but no failure to give such notice shall affect the obligation of the Obligors or the Paying Agent to make any such payment when due under this Agreement.

SECTION 5.03. Application of Payments. (a) In the event that ~~on the~~ day three Banking Days before any Payment Date, the Agent shall not have in the Payment Accounts sufficient funds to pay in full the interest and principal due and payable hereunder on such Payment Date, the Agent shall (to the extent that it shall not have reason to believe that sufficient funds will be received on or before such Payment Date) enter into currency exchange transactions on such dates and in such amounts and currencies as it, in its sole discretion, shall determine are appropriate in order to enable it to distribute on such Payment Date ratably among the Creditors in the following order of priority the funds in the Payment Accounts:

(i) first, to all amounts originally due and payable at least three Banking Days before such Payment Date on account of facility fees and the agency fee hereunder;

(ii) second, to all amounts originally due and payable on or before such Payment Date on account of interest; and

(iii) third, to all amounts originally due and payable on or before such Payment Date on account of principal.

If such currency exchange transactions do not yield the precise amount of each currency required for ratable distributions, the Agent shall nonetheless distribute the full amount of each currency held by it for distribution, and shall not be required to enter into any further currency exchange transactions so long as it distributes in each currency a percentage of the amount to be distributed in such currency which is at least 95% of the highest such percentage distributed in any other currency, provided that the Obligors shall remain obligated to pay each Creditor in the relevant currency the unpaid amount of principal and interest due in respect of its Refunding and Consolidating Loans and other unpaid amounts after giving effect to any such currency exchange transactions. Any resulting failure to make a distribution on an exact ratable basis shall be taken into account and adjusted, to the extent practicable, during the period from the date three Banking Days before the next succeeding Payment Date to such next succeeding Payment Date (with the actions required by this sentence to be repeated as often as may be necessary so that distributions hereunder shall be made on an exact ratable basis). The Obligors jointly and severally agree to indemnify the Agent and each Creditor on demand for any cost, expense or loss incurred by it in connection with the currency exchange transactions required by this paragraph (a).

(b) Application by Creditor. Any Creditor may apply funds received by it pursuant to paragraph (a) of this Section 5.03 in a different order, but such application shall not affect the duties of the Agent or the obligations of the Paying Agent or the joint and several obligations of the Obligors hereunder.

(c) Agent's Requirement to Make Ratable Application. In the event that the Agent under this

Agreement or in its capacity as agent under the Short-Term Facilities Agreement or the 1983 Financing Agreement shall receive funds for payment of obligations under this Agreement and in respect of the "Extension Loans" under the Short-Term Facilities Agreement and the "Advances" and "Refunding and Consolidating Loans" under the 1983 Financing Agreement which are due and payable on the same date, but the funds received by it are not in the aggregate sufficient to pay all of said obligations in full, then the Agent is hereby authorized and directed to aggregate any funds that are delivered to it for payment of such obligations and that are not designated as being provided for the payment of obligations under this Agreement or in respect of the "Extension Loans" under the Short-Term Facilities Agreement or the "Advances" or "Refunding and Consolidating Loans" under the 1983 Financing Agreement and to make a ratable payment on account of the obligations due and payable under this Agreement and in respect of the "Extension Loans" under the Short-Term Facilities Agreement and the "Advances" and "Refunding and Consolidating Loans" under the 1983 Financing Agreement, on the same day (with such ratable payment to be determined by reference to the aggregate principal amounts outstanding under this Agreement and in respect of the "Extension Loans" under the Short-Term Facilities Agreement and the "Advances" and "Refunding and Consolidating Loans" under the 1983 Financing Agreement).

SECTION 5.04. Payments to Be on Certain Days. Whenever any payment hereunder shall be stated to be due, or whenever the last day of any Interest Period would otherwise occur, on a day other than a day which is both a Business Day and a day on which banks are open for domestic and foreign exchange business in the city in which the Payment Account from or to which such payment is to be made is located, such payment shall be made, and the last day of such Interest Period shall occur, on the next succeeding such day, and such extension of time shall in such case be included in the computation of payment of interest.

SECTION 5.05. No Set-Off or Counterclaim. To the fullest extent permitted by law, the Obligors (and the Paying Agent, as their representative) shall make all payments hereunder unconditionally in full without set-off, defense or counterclaim or reduction for any reason whatever, including, without limitation, any defense or counterclaim based on any law, rule or policy which is now or hereafter promulgated by any governmental authority or regulatory body and which may adversely affect the obligation to make, or the right of any Creditor to receive, such payments.

SECTION 5.06. Sharing. (a) General Requirement of Sharing. Each Creditor agrees that if it shall at any time, through exercise of a right of banker's lien, set-off, litigation (other than any litigation as to which the Majority Creditors have given their consent) or counterclaim or otherwise, obtain payment with respect to the principal of or interest on Refunding and Consolidating Loans owed to it that is proportionately greater than the payment obtained by any other Creditor with respect to the principal of and interest on Refunding and Consolidating Loans owed to such other Creditor, the Creditor obtaining such proportionately greater payment shall purchase from each such other Creditor, in the manner and on the terms set forth in this Section 5.06, a participation in the principal of and interest on such other Refunding and Consolidating Loans in such amount (and such other adjustments shall be made from time to time) as shall be required to ensure that the Creditors share such payments ratably as contemplated by this Section 5.06, provided that the obligation to share as required by this Section 5.06 shall not exist until a Notice of Default has been received by the Agent or there has been a Sharing Request (as hereinafter defined), whereupon each Creditor shall perform its obligations under this Section 5.06 strictly in accordance with its terms, and provided, further, that this Section 5.06 shall not impair any right of any Creditor to apply amounts recovered by it to pay indebtedness other than amounts due under this Agreement. Disproportionate payments of interest shall be shared by the purchase of separate participations in unpaid interest obligations and disproportionate payments of principal shall be shared by the purchase of separate participations in unpaid principal obligations. For purposes of this Section 5.06, a "Sharing Request" means a notice to the Agent by any Creditor stating that such Creditor has not received a payment of interest or principal or other amount due to such Creditor hereunder, that such Creditor considers such unpaid amount to be significant and that such Creditor requests that the Agent promptly solicit the consent of the Majority Creditors that the sharing provisions of this Section 5.06 be implemented and the acquiescence of the Majority Creditors in the request is obtained by the Agent.

(b) Notifications. The Agent shall immediately notify each Creditor of its receipt of a Sharing Request, which notice shall identify (i) the Creditor or Creditors submitting such Sharing Request and (ii) the first of the successive periods of three calendar months commencing on the date on which the obligation to share pursuant to paragraph (a) of this Section 5.06 comes into existence (each such period being herein called a "Reporting Period"). Each Creditor shall immediately notify the Agent (i) whether or not it acquiesces in such Sharing Request and (ii) the amount and type of any payment obtained by such Creditor other than through the Agent of any amount of principal or interest due to such Creditor under this Agreement. The Agent shall promptly notify the other Creditors thereof. If the Majority Creditors acquiesce in such Sharing Request, it shall then be deemed an "Active Sharing Request" until terminated. If an Active Sharing Request is in force or a Notice of Default has been received by the Agent, the provisions of paragraphs (c) through (j) of this Section 5.06 shall be applicable.

(c) Reports by Creditors. Within 10 days after the end of each Reporting Period, each Creditor shall deliver a report to the Agent stating whether or not it obtained any payment of principal or interest during such Reporting Period and, if so, the separate amounts of such payments (in the case of each such payment, net of any out-of-pocket expenses incurred by such Creditor in obtaining such payment and not otherwise reimbursed to such Creditor) received for principal or interest (and, in the case of the first such Reporting Period, the existence and amounts of any payments received by such Creditor prior to such Reporting Period), provided that a Creditor need not report any such payment received as a distribution of funds by the Agent.

(d) Calculations. On the first Business Day at least 20 days after the end of each Reporting Period (any such day being herein called a "Calculation Date"), the Agent shall:

(i) determine the aggregate amounts of all payments for principal and interest reported to the Agent pursuant to paragraph (c) of this Section 5.06 within the time period therein specified (excluding payments shared pursuant to this Section 5.06 as of any previous Calculation Date);

(ii) determine the portions of such aggregate amounts of principal and interest that would be allocated to each Creditor that has delivered a report in respect of such Reporting Period (each such Creditor being herein called a "Reporting Creditor") to ensure that the Reporting Creditors share such aggregate amounts ratably in proportion to the aggregate unpaid principal and interest owed to a Reporting Creditor as of the end of the immediately preceding Reporting Period;

(iii) give notice by telex or cable to each Reporting Creditor that has received payments of principal or interest in excess of its ratable share, specifying (A) the amounts of such excess in U.S. Dollars and the amounts of participations in the principal of or interest on the Refunding and Consolidating Loans owed to other Reporting Creditors in each currency to be purchased by such Creditors with such excess to accomplish such ratable sharing and (B) the date on which sharing payments shall be made, which day shall be the first Banking Day at least five days after the relevant Calculation Date (such date being herein called a "Creditor Payment Date"); and

(iv) give notice by telex or cable to each Reporting Creditor that has received payments of principal or interest of less than its ratable share specifying the aggregate amounts of participations in the principal of or interest on the Refunding and Consolidating Loans owed to it to be purchased from it to accomplish such ratable sharing.

(e) Payment for Participations. On each Creditor Payment Date, each Creditor required to purchase participations shall pay the excess amounts specified in the notice provided on the related Calculation Date to the Agent in the currency in which such excess amounts were received by such Creditor. The Agent shall convert all such payments received by it in currencies other than U.S. Dollars into U.S. Dollars and for such purpose is authorized to enter into currency exchange transactions on such dates and in such amounts as it, in its sole discretion, shall determine. On the first Banking Day at least 15 days after the Calculation Date and from time to time thereafter, at such intervals as the Agent in its sole discretion shall determine (but, in any event, on the Banking Day following any Banking Day on which U.S.$5,000,000 becomes available for distribution under this paragraph (e)), the Agent shall distribute to the Creditors from which participations are to be purchased their respective proportionate shares of the U.S. Dollars theretofore received by the Agent pursuant to this paragraph (e) (less any commissions or other costs arising out of such currency exchange transactions). No adjustment shall be made in the amount of any participation because the exchange value of any U.S. Dollars received by the seller of such participation is different on the date of receipt from the exchange value used to determine the amount of such participation or because commissions and other costs were deducted from amounts otherwise payable to such Creditor or because of any fluctuation of exchange rates, and the Obligors jointly and severally agree to indemnify such Creditor on demand in respect of any loss suffered by it on account of no such adjustment being effected. To the extent practicable in its sole discretion, the Agent shall invest the funds held by it from time to time pursuant to this paragraph (e) with prime banks in an interbank call market (or any similar market), but the Agent shall not be liable or responsible for any investment losses; and, the interest earned on such funds shall be distributed proportionately to the Creditors from which participations are purchased.

(f) Accounting for Participations. The Agent shall keep records (which shall be conclusive absent manifest error) of participations purchased and sold pursuant to this Section 5.06. Notwithstanding any provisions hereof to the contrary, the Agent shall give effect to the purchases and sales of participations reflected from time to time in such records for purposes of (i) subsequent distributions to the Creditors pursuant to this Article V and (ii) subsequent calculations and distributions pursuant to this Section 5.06. The rights of the owner of any such participation in a Refunding and Consolidating Loan against the Creditor to which such Refunding and Consolidating Loan is owed shall, except as otherwise provided in the next succeeding sentence, be limited to the right to receive distributions with respect thereto from the Agent as provided in this Section 5.06 and to share in any other payments received by such Creditor as provided in this Section 5.06. It is understood that each Creditor purchasing a participation in any Refunding and Consolidating Loans pursuant to this Section 5.06 shall acquire all voting rights with respect to its share of such Refunding and Consolidating Loans. The Obligors agree that any Creditor so purchasing a participation from another Creditor pursuant to this Section 5.06 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Creditor were the direct creditor of the Obligors in the amount of such participation.

(g) Interest on Sharing Payments in Default. Any Creditor which defaults in its obligation to make a sharing payment pursuant to paragraph (e) of this Section 5.06 shall pay interest to the Agent for the account of the Creditors entitled to participate in the sharing payment of such Creditor, such interest to accrue on the amount of the sharing payment in default from the relevant Creditor Payment Date, to be payable on demand and to be calculated at a rate per annum equal to the highest interest rate applicable from time to time to the Refunding and Consolidating Loans of such defaulting Creditor in the currency in which such sharing payment is required to be made, or if there are no such Refunding and Consolidating Loans of such defaulting Creditor then outstanding, to the highest interest rate which would be applicable to such Refunding and Consolidating Loans if they were outstanding.

(h) Rescission of Shared Payment. If any payment obtained by any Creditor from any Obligor or the Guarantor is rescinded or otherwise restored, and such payment has been shared by such Creditor pursuant to the provisions of this Section 5.06, then each Creditor shall promptly return to the Agent for the account of such Creditor the amount in U.S. Dollars calculated by the Agent to be attributable to the amount of the payment previously shared which is rescinded or restored. Any Creditor which defaults on its obligation to return any such amount shall pay interest to the Agent for the account of the Creditor entitled to such amount, such interest to accrue from the day on which such Creditor shall have received notice of its obligation to return such amount, to be payable on demand and to be calculated in the manner described in paragraph (g) of this Section 5.06.

(i) Further Implementation. The Agent may (but shall not be required to) suggest such additional procedures or adjustments under this Section 5.06 as it in its reasonable discretion may consider necessary or appropriate to effectuate the purposes of this Section 5.06 but no such suggestion by the Agent shall bind or change the obligations of the Creditors or the Agent under this Section 5.06 unless accepted in writing by the Extra-majority Creditors.

(j) Acknowledgment. The Paying Agent and the Obligors acknowledge and consent to the foregoing provisions of this Section 5.06. The Agent shall promptly notify the Obligors through the Paying Agent of the Creditors purchasing and selling participations under this Section 5.06 and the respective amounts thereof.

(k) Exchange Rates. For purposes of calculations under this Section 5.06, the Agent shall convert to U.S. Dollars all relevant amounts in other currencies at the appropriate exchange rate for the relevant Calculation Date in the manner contemplated in paragraph (d) of Section 14.15 hereof and shall make distributions pursuant to paragraph (e) of this Section 5.06 on the basis of the U.S. Dollar amounts so calculated.

SECTION 5.07. Payments Subsequently Repaid. If all or any portion of any payment to the Agent or any Creditor in respect of any amount payable by any Obligor hereunder and paid by such Obligor or by the Guarantor under the Guaranty shall at any time be repaid in compliance with an order of a court of competent jurisdiction, the Obligors shall concurrently with such repayment become obligated hereunder to make a payment in the same amount to the Agent or such Creditor, as the case may be. Such obligation shall be deemed to arise at the time of such repayment for purposes of any statute of limitations.

SECTION 5.08. Funds Incorrectly Disbursed. If due to inaccurate instructions from the Paying Agent, any Obligors or the Guarantor, the Agent disburses funds to any Creditor either (a) in excess of the ratable share allocable to such Creditor or (b) on an assumption which proves to be inaccurate that sufficient funds for such payment have been provided to the Agent by the Paying Agent, the Obligors or the Guarantor, then upon receipt of notice of such incorrect disbursement (which notice shall be given as soon as practicable and to the extent possible within 30 days of the date of such incorrect disbursement), the recipient Creditor shall promptly remit a like amount, in the same currency and in funds similar to those incorrectly disbursed, to the Agent (for the account of the party or parties entitled to such funds), together with interest thereon for each day during which such recipient Creditor, in accordance with its ordinary practice, is able to place with a prime bank in the London interbank market or in the relevant domestic market (as the case may be) such amount as a deposit in the currency in which such amount is denominated, calculated at the rate per annum equal to the rate at which call deposits in such currency are offered by the Agent to prime banks in the London interbank market for such day or, if no call deposits are so offered in such currency, at the rate per annum equal to the Domestic Rate for such currency. This Section 5.08 is without prejudice to any rights that the Paying Agent, any

Obligors or the Guarantor may have with respect to funds incorrectly disbursed.

SECTION 5.09. <u>Increased Costs</u>. (a) <u>Payment of Increased Costs</u>. If any Creditor determines that due to either (i) any law or regulation, or any change (including, without limitation, any change by way of imposition or increase of reserve requirements or in the basis of taxation applicable to such Creditor or its Lending Office) in or in the interpretation of any law or regulation (including, but not limited to, any tax law or regulation) or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law, but only if compliance therewith is in accordance with normal banking practice), (A) there shall be any increase (other than in the overall net income taxes of such Creditor) in the cost to such Creditor of agreeing to make, making, funding or maintaining its Refunding and Consolidating Loans or (B) there shall be any reduction in the amount of any payment received or receivable by such Creditor in respect of its Refunding and Consolidating Loans or (C) such Creditor suffers any loss or damage or makes any payment or foregoes any interest with respect to this Agreement, then the Obligors shall from time to time, upon demand by such Creditor (with a copy of such demand to the Agent), pay to the Agent for the account of such Creditor additional amounts sufficient to indemnify such Creditor in the currency in which such Refunding and Consolidating Loans may be outstanding against such increased cost or reduction, other loss or damage or foregone interest. A certificate as to the amount of such increased cost, reduction, loss, damage or foregone interest (and specifying in reasonable detail the reason therefor and calculation thereof), submitted to the Paying Agent and the Agent by such Creditor, shall be conclusive and binding for purposes of payment, in the absence of manifest error.

(b) <u>Change of Lending Office, etc.</u> Each Creditor agrees that, upon the occurrence of any event giving rise to the operation of paragraph (a) of this Section 5.09 with respect to such Creditor it will, if requested by the Paying Agent or the Obligors and to the extent permitted by law or by the relevant governmental authority, in consultation with the Agent, for a period of 30 days endeavor in good faith to avoid or minimize the increase of costs or reduction in payments resulting from such event (including, but not limited to, endeavoring to change its Lending Office); <u>provided</u>, <u>however</u>, that (i) any dispute as to the amount of the liability of the Obligors in respect of such increased costs or reduction in payments has been resolved and (ii) such action can be taken in such a manner that such Creditor, in its sole determination, suffers no economic, legal or regulatory or other disadvantage. Any expenses incurred by such Creditor in so doing shall be paid by the Obligors upon delivery to the Obligors of a certificate as to the amount of such expenses, which certificate shall be conclusive and binding, in the absence of manifest error. Nothing in this paragraph (b) shall affect or postpone the obligations of the Obligors to make payments as provided in paragraph (a) of this Section 5.09.

SECTION 5.10. Taxes. (a) Payments Free and Clear. Any and all payments by the Obligors or the Paying Agent or any paying agent therefor under this Agreement shall be made free and clear of and without deduction for or on account of any and all present or future taxes, levies, imposts, deduction, charges or withholding, and all liabilities with respect thereto, which are imposed by Yugoslavia or any political subdivision or taxing authority thereof or therein or which are other than a tax on overall net income and are imposed by any jurisdiction through or from which any payment under this Agreement is made or any political subdivision or taxing authority thereof or therein (all such taxes, levies, imposts, deductions, charges, withholdings and liabilities, being herein called the "Applicable Taxes"). If the Paying Agent or any Obligor or any paying agent therefor shall be required by law to deduct any Applicable Taxes (or to deduct any other amount which, but for the phrase "to the fullest extent permitted by law" contained in Section 5.05 hereof, would not be permitted to be deducted under the provisions of said Section 5.05) from or in respect of any sum payable hereunder to any Creditor or the Agent (including any sum payable hereunder to a Payment Account), (i) the sum payable shall be increased by the Obligor and the Paying Agent as may be necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 5.10) such Creditor or the Agent (as the case may be) receives and retains an amount equal to the sum it would have received had no such deductions been made, (ii) the Obligors shall make such deductions, (iii) the Obligors shall pay for the account of such Creditor or the Agent the full amount deducted to the relevant taxing authority or other authority in accordance with applicable law, and (iv) the Obligors shall indemnify the Creditors and the Agent for any interest or penalties for any failure to report or to pay the same.

(b) Notice. If at any time any Applicable Taxes become payable by the Paying Agent or any Obligor, or if there is any change in the rates of such Applicable Taxes, any party receiving such knowledge thereof shall promptly notify the Agent.

(c) Payment of Stamp, Excise, Other Taxes, etc. The Obligors agree to pay any present or future excise, stamp, court or documentary taxes or any other property taxes, charges or similar levies (which are taxes other than a tax on net income) imposed by Yugoslavia or any other jurisdiction or any political subdivision thereof or taxing authority therein which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement ("Other Applicable Taxes").

(d) Reimbursement of Applicable Taxes Paid by Creditors. The Obligors agree jointly and severally that they will indemnify each Creditor and the Agent for the full amount of Applicable Taxes or Other Applicable Taxes (including, without limitation, any Applicable Taxes or Other Applicable Taxes imposed on amounts payable under this Section 5.10) paid by such Creditor or the Agent (as the case may be) or any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Applicable Taxes or Other Applicable Taxes were correctly or legally asserted, provided that prompt notice of the assertion of such Applicable Taxes or Other Applicable Taxes shall have been given, if practicable, to the Paying Agent before the payment thereof. Payment pursuant to this indemnification shall be made within 30 days from the date such Creditor or the Agent (as the case may be) makes written demand therefor.

(e) Other Kinds of Taxes. Without prejudice to the other provisions of this Section 5.10, if the Agent or any Creditor is required by law to make any payment on account of any tax (whether or not an Applicable Tax but not being a tax on all or part of its net income levied in the jurisdiction in which it is incorporated or in which, in the case of a Creditor, its Lending Office is located) on or in relation to any sum received or receivable by the Agent or such Creditor hereunder or any liability in respect of any such payment is asserted, imposed, levied, or assessed against any such person, the Obligors will, upon demand of such person and whether or not such payment or liability be correctly asserted, imposed, levied or assessed, indemnify such person against such payment or liability, together with any interest, penalties and expenses payable or incurred in connection therewith.

(f) Tax Certificates. Within 30 days after the date of any payment of Applicable Taxes, the Paying Agent or the Obligors (as the case may be) will furnish to the Agent (for photocopying and distribution to the Creditors), at its address referred to in Section 14.02 hereof, the original or a certified copy of a receipt evidencing the amount and payment thereof.

(g) Survival. Without prejudice to the survival of any other agreement of the Obligors hereunder, the agreements and obligations of the Obligors contained in this Section 5.10 shall survive the payment in full of principal and interest of and in respect of all Refunding and Consolidating Loans hereunder and termination of this Agreement.

SECTION 5.11. Joint and Several Liability. (a) Joint and Several Liability. The liability of NBY and each of the other Obligors to pay or to perform any obligations under this Agreement is agreed to be joint and several, so that NBY and each of the other Obligors shall be liable as principal debtor for all the obligations of all of the Obligors, and shall not be excused in whole or in part by the failure of any Obligor to pay or perform any obligation hereunder. If any obligation is or is to be performed by any one or more of the Obligors, such performance shall be the subject of an indemnity pursuant to paragraph (b) of this Section 5.11.

(b) Indemnity. Each Obligor hereby unconditionally and irrevocably agrees to pay to the Agent for the account of the Creditors from time to time on demand by the Agent an amount equal to and in the same currency as each amount due and payable by it or any other Obligor hereunder and hereby undertakes to indemnify the Agent and each of the Creditors from and against all actual liabilities, costs, losses and reasonably incurred expenses which the Agent and the Creditors or any of them may sustain or incur (i) as a result of any default by it or any other Obligor in the due performance of its obligations under this Agreement or (ii) as a result of any provision of this Agreement being or becoming void, voidable, unenforceable or ineffective for any reason whatsoever, whether or not known to any one or more of the parties hereto.

(c) No Impairment of Obligations. The obligations of each Obligor under this Agreement shall not be in any way discharged or impaired (i) by reason of any time or indulgence which may be granted by the Agent or the Creditors or any of them to any other person (including any other Obligor or the Guarantor) from whom they may seek payment of sums due from an Obligor under this Agreement, (ii) by any amendment or modification of this Agreement or the Guaranty or any related document, (iii) by any action or omission to take any action referred to in paragraph (e) of this Section 5.11 or (iv) by any other circumstance which might (but for this provision) constitute a legal or equitable discharge of such Obligor.

(d) No Derogation of Other Rights. Any rights conferred on the Agent and the Creditors by paragraph (b) of this Section 5.11 shall be in addition to and not in substitution for or derogation of any other right which the Agent or the Creditors or any of them might at any time have to seek from any other Obligor, the Guarantor or any other person for the payment of sums due from an Obligor or indemnification against liabilities incurred as a result of any Obligor's default in payment of or performance of any obligation under this Agreement.

(e) No Requirement to Take Action. Neither the Agent nor the Creditors shall be obliged before taking steps to enforce any rights conferred on them by this Section 5.11 or exercising any of the rights, powers and remedies conferred on them hereby or by law (i) to take action or obtain judgment in any court against any other Obligor, the Guarantor or any other person from whom they may seek payment of any sum due from an Obligor under this Agreement or the Guaranty, (ii) to make or file any claim in a bankruptcy, winding-up, liquidation or reorganization of any other Obligor or any other such person or (iii) to enforce or seek to enforce any other rights they may have against any other Obligor, the Guarantor or any other such person.

(f) Paying Agent as Representative. Each Obligor hereby unconditionally and irrevocably authorizes and empowers the Paying Agent to sign and deliver to the Agent, or to receive from the Agent, any notice required to be delivered or received by the Obligors and to take any other action required or desirable to be taken by the Obligors under this Agreement.

ARTICLE VI

EVIDENCE OF DEBT

SECTION 6.01. Control Accounts. The Agent shall maintain on its books of account a control account or accounts in which shall be recorded:

(a) the amount and currency of each Refunding and Consolidating Loan which shall be made by the Creditors pursuant to this Agreement; and

(b) the amount and currency of each repayment of the principal of, each payment of interest on, and each payment of any other amount related to, the Refunding and Consolidating Loans.

SECTION 6.02. Each Creditor's Accounts. (a) Establishment of Accounts. Each Creditor shall establish and maintain in accordance with its usual practice and on the books of account of its Lending Offices accounts evidencing the amount and currency of each Refunding and Consolidating Loan made by it pursuant to this Agreement as well as all payments received by it on account of principal thereof and interest thereon pursuant to this Agreement or the Guaranty. A certificate of a Creditor as to (i) the amount by which a sum payable hereunder is to be increased under Section 5.10 hereof or (ii) the amount for the time being required to indemnify against any such cost or liability as is mentioned in Sections 5.09 and 5.10 hereof shall be *prima facie* evidence of the existence and amounts of the obligations of the Obligors therein recorded.

(b) Accounts as Evidence. In any dispute, legal action or other proceeding whether judicial or otherwise, arising out of or in connection with this Agreement, the entries made in the accounts established and maintained by any Creditor pursuant to paragraph (a) of this Section 6.02 shall constitute *prima facie* evidence of the existence and amounts of the obligations of the Obligors recorded therein; and in the case of conflict between any such account and the control accounts maintained by the Agent pursuant to Section 6.01 hereof, the accounts of the relevant Creditor shall control, in the absence of manifest error.

ARTICLE VII

CONDITIONS PRECEDENT

SECTION 7.01. Condition Precedent to Execution of this Agreement. This Agreement shall not be executed and delivered by any of the Creditors or the Agent unless the following conditions precedent shall have been fulfilled on the date on which the Paying Agent shall have executed and delivered this Financing Agreement:

(a) Letter of Intent. The IMF and the Guarantor shall have executed and delivered a Letter of Intent contemplating the execution and delivery by each of them of a new Stand-by Arrangement for Yugoslavia providing for drawings by the Guarantor during 1984 in an aggregate principal amount at least equal to the principal payments due from the Guarantor during the period from January 1, 1984 to and including December 31, 1984 on account of drawings theretofore made by it from the IMF (such new Stand-by Arrangement being herein called the "1984 IMF Stand-by Arrangement").

(b) Payment of Arrears. There shall have been paid, or monies adequate for the payment thereof shall have been placed on deposit with the Agent in escrow pursuant to Section 14.16 hereof for the payment of, all amounts due and payable to each Creditor on account of any Arrears due and payable on or before the date on which the Paying Agent shall have executed and delivered this Agreement (except to the extent any such Arrear has arisen from technical difficulties in the ordinary course); provided, however, that this condition precedent shall be deemed fulfilled if payment has been made for, or monies have been so placed in escrow for the payment of, each such Arrear to which notice has been given to the Agent and the Paying Agent at least five Working Days prior to such date; and

(c) 1983 Event of Default. No 1983 Event of Default shall have occurred and be continuing; provided, however, that this condition precedent shall be deemed fulfilled if (i) the agent under the 1983 Financing Agreement and the Short-Term Facilities Agreement shall not have received a "Notice of Default" thereunder which has not been withdrawn describing a 1983 Event of Default which continues to be in existence as of the date on which the Paying Agent shall have executed and delivered this Agreement and (ii) no 1983 Event of Default shall have occurred and be continuing as a result of the non-payment when due of any principal of or interest on any "Advances" or "Refunding and Consolidating Loans" under the 1983 Financing Agreement or any "Extension Loans" under the Short-Term Facilities Agreement.

SECTION 7.02. Conditions Precedent to Effectiveness of this Agreement. This Agreement shall become effective and binding upon the Obligors, the Creditors and the Agent on and as of the date (the "Effective Date") when copies of this Agreement have been executed and delivered to the Agent in counterparts by each Obligor and the Paying Agent and by Creditors which have executed and delivered to the Agent fully completed Refunding and Consolidating Loan Notices with respect to Eligible Principal Payments in an aggregate principal amount outstanding of U.S.$____________ or its equivalent in other currencies as calculated by the Agent, using the following rates of exchange to U.S. Dollars:

Austrian Schillings:	19.935	Italian Lire:	1717.000
Belgian Francs:	57.640	Japanese Yen:	234.250
Canadian Dollars:	1.248	Kuwait Dinars:	0.295
Danish Kroner:	10.230	Pound Sterling:	0.714
Deutsche Mark:	2.820	Swedish Kroner:	8.195
Dutch Guilders:	3.175	Swiss Francs:	2.244
French Francs:	8.625		

and for any other currency, the applicable exchange rate of the Agent on the date of calculation provided that the following conditions shall have been fulfilled on such date:

(a) Guaranty. The Guaranty shall have been executed and delivered to the Agent by the Guarantor;

(b) Payment of Arrears. There shall have been paid, or monies adequate for the payment thereof shall have been placed on deposit with the Agent in escrow pursuant to Section 14.16 hereof for the payment of, all amounts due and payable to each Creditor on account of any Arrears due and payable on or before the date on which the Agent shall have executed and delivered this Agreement (except to the extent any such Arrear has arisen from technical difficulties in the ordinary course); provided, however, that this condition precedent shall be deemed fulfilled if payment has been made for, or monies have been so placed in escrow for the payment of, each such Arrear to which notice has been given to the Agent and the Paying Agent at least five Working Days prior to such date; and

(c) 1983 Event of Default. No 1983 Event of Default shall have occurred and be continuing; provided, however, that this condition precedent shall be deemed fulfilled if (i) the agent under the 1983 Financing Agreement and the Short-Term Facilities Agreement shall not have received a "Notice of Default" thereunder which has not been withdrawn describing a 1983 Event of Default which continues to be in existence as of the date on which the Agent shall have executed and delivered this Agreement and (ii) no 1983 Event of Default shall have occurred and be continuing as a result of the non-payment when due of any principal of or interest on any "Advances" or "Refunding and Consolidating Loans" under the 1983 Financing Agreement or any "Extension Loans" under the Short-Term Facilities Agreement.

Upon the occurrence of the Effective Date, the Agent shall promptly notify the Obligors, the Guarantor and the Creditors thereof.

SECTION 7.03. Conditions Precedent to the First Refunding and Consolidating Loans. The agreement of each Creditor to make each of its Refunding and Consolidating Loans under Article II hereof is subject to the fulfillment of the following conditions precedent on the First Refunding and Consolidating Loan Date:

(a) Payment of Fees, Costs and Expenses. The Obligors shall have paid, or monies adequate for the payment thereof shall have been placed on deposit with the Agent in escrow for the payment on the First Refunding and Consolidating Loan Date of, (i) all amounts then due and payable on account of the facility fees and agency fee hereunder and (ii) all costs and expenses payable or reimbursable by the Obligors under Section 14.05 hereof for which invoices or statements shall have been submitted to the Paying Agent on or before the date [30] days before the First Refunding and Consolidating Loan Date;

(b) Payment of Arrears. There shall have been paid, or monies adequate for the payment thereof shall have been placed on deposit with the Agent in escrow pursuant to Section 14.16 hereof for the payment of, all amounts due and payable to each Creditor on account of any Arrears due and payable on or before the First Refunding and Consolidating Loan Date (except to the extent that any such Arrear has arisen from technical difficulties in the ordinary course); provided, however, that this condition precedent shall be deemed fulfilled if (i) payment has been made for, or monies have been so placed in escrow for the payment of, each such Arrear to which notice has been given to the Agent and the Paying Agent at least five Working Days prior to the first Refunding and Consolidating Loan Date and (ii) the Agent shall have received a certificate, dated as of a date not more than five Working Days prior to the first Refunding and Consolidating Loan Date and executed and delivered on behalf of the Obligors by a duly authorized officer of the Paying Agent, to the effect that this condition precedent has been fulfilled.

(c) 1984 IMF Stand-by Arrangement Financing. The Agent shall have received a certificate, dated as of a date not more than 10 Working Days before the First Refunding and Consolidating Loan Date and executed and delivered on behalf of NBY by a duly authorized officer thereof, to the effect (i) that attached thereto are true copies of (A) the instruments and agreements evidencing and governing the 1984 IMF Stand-by Arrangement and (B) the decision of the Executive Board of the IMF at which there shall have been approved the 1984 IMF Stand-by Arrangement and (ii) that the Guarantor is eligible to use the resources of the IMF;

(d) Governmental Financings. The Agent shall have received:

(i) a certificate, dated as of a date not more than 10 Working Days before the First Refunding and Consolidating Loan Date and executed and delivered on behalf of the Federal Secretariat of Finance of the Guarantor by a duly authorized representative thereof, to the effect that attached thereto is a true copy of the [insert name or description of minute or agreement, or a document of the Berne Accord Coordinator summarizing such minute or agreement, adopted at the meeting of the Cooperating States to be held on March 24, 1984] (the "Geneva Accord") adopted by each of the Cooperating States and pursuant to which each of them has agreed to refinance, on terms and conditions providing that the first installment of principal thereof is not scheduled to be due and payable prior to 1988 and that the final installment of such principal is not scheduled to be due and payable prior to 1991, 100% of each payment of External Indebtedness of one or more Yugoslav Obligors which constitutes principal or its equivalent, which was outstanding at the close of business on December 2, 1982, which has become or shall become due during the period from January 1, 1984 to and including December 31, 1984 and which either is owing to such Cooperating State or constitutes an item of Government Guaranteed Debt in respect of which it is a surety, which certificate shall be in substantially the form of Exhibit E hereto; and

(ii) a letter or telex, dated as of a date before the First Refunding and Consolidating Loan Date, of the Berne Accord Coordinator stating that, to the best knowledge of the Berne Accord Coordinator, substantially all of the financings and refinancings set forth in the report provided by the Berne Accord Coordinator in connection with the "First Availability Date" under the 1983 Financing Agreement, to the extent that such financings and refinancings have not previously been consummated, have continued to be available to Yugoslavia in 1984, which letter or telex shall be in substantially the form of Exhibit F hereto;

(e) IBRD Loans. The Agent shall have received a letter or telex, dated as of a date not more than 10 Working Days before the First Refunding and Consolidating Loan Date and sent to the Agent on behalf of the IBRD by an appropriate officer thereof, to the effect that the aggregate amount of the structural adjustment loans and other facilities of the IBRD committed to be disbursed to Yugoslavia during the period from January 1, 1984 to and including December 31, 1984 is at least equal to the Principal Payments which have become or shall become due during such period and which are owing to the IBRD, which letter or telex shall be in substantially the form of Exhibit G hereto;

(f) <u>Other Refinancing</u>. The Agent shall have received a certificate, dated as of a date not more than 10 Working Days before the First <u>Refunding and Consolidating Loan</u> Date and executed and delivered on behalf of NBY by a duly authorized officer thereof, to the effect that (i) neither any Obligor, the Guarantor nor any Agency, nor, to the best knowledge of NBY, any other Original Borrower, has, during the period since the close of business on January 17, 1983, entered into any instrument or agreement providing for the payment, refinancing or extension of any Principal Payment on terms and conditions requiring the application of any International Monetary Assets or Exportable Assets of any Obligor, the Guarantor, any Agency or any Original Borrower, if the effect of such application would be to cause the provisions of paragraph (b) of Section 4.02 hereof to become applicable in accordance with the terms of paragraph (a) of said Section 4.02 and (ii) such provisions have not become applicable as the result of any such application on account of any Principal Payment<u>, which certificate shall be in substantially the form of Exhibit H hereto</u>;

(g) <u>LHB Agreement</u>. The Agent shall have received the LHB Agreement, executed and delivered by a duly authorized officer of LHB and acknowledged and agreed to by duly authorized officers of the Yugoslav shareholders of LHB;

(h) <u>Registration Report of Concluded Credit Transaction</u>. The Agent shall have received a copy, certified as of a date not more than 10 Working Days before the First <u>Refunding and Consolidating Loan</u> Date on behalf of NBY by a duly authorized officer thereof, of the registration of the report of concluded credit transaction in respect of the obligations of each Obligor (other than NBY) under this Agreement referred to in paragraph (j) of Section 9.01 hereof;

(i) <u>Certificates as to Representations, No Default, Incumbency, etc</u>. The Agent shall have received each of the following certificates, each of which shall be dated as of a date not more than 10 Working Days before the First <u>Refunding and Consolidating Loan</u> Date:

(i) a certificate, executed and delivered on behalf of NBY, as an Obligor and as the Paying Agent, by a duly authorized officer thereof, in substantially the form of Exhibit I hereto;

(ii) a certificate, executed and delivered on behalf of each Obligor other than NBY by a duly authorized officer thereof, in substantially the form of Exhibit J hereto; and

(iii) a certificate, executed and delivered on behalf of the Federal Secretariat of Finance of the Guarantor by a duly authorized representative thereof, in substantially the form of Exhibit K hereto;

(j) Process Agents. The Agent shall have received each of the following letters:

(i) a letter from each of the Obligors and the Paying Agent to the New York Process Agent in substantially the form of Exhibit L hereto, duly acknowledged by the New York Process Agent;

(ii) a letter from each of the Obligors and the Paying Agent to the London Process Agent in substantially the form of Exhibit M hereto, duly acknowledged by the London Process Agent;

(iii) a letter from the Guarantor to the Consul General of Yugoslavia in New York City, as the New York process agent under the Guaranty, in substantially the form of Exhibit N hereto, duly acknowledged by said Consul General;

(iv) a letter from the Guarantor to the Consul General of Yugoslavia in London, as the London process agent under the Guaranty, in substantially the form of Exhibit O hereto, duly acknowledged by said Consul General;

(v) a letter from the Guarantor to CT Corporation System, as the alternate New York process agent under the Guaranty, in substantially the form of Exhibit P hereto, duly acknowledged by CT Corporation System; and

(vi) a letter from the Guarantor to The Law Debenture Corporation p.l.c., as the alternate London process agent under the Guaranty, in substantially the form of Exhibit Q hereto, duly acknowledged by The Law Debenture Corporation p.l.c.;

(k) Legal Opinions. The Agent shall have received each of the following opinions, each of which shall be dated as of a date not more than 10 Working Days before the First Refunding and Consolidating Loan Date:

(i) an opinion of the senior legal adviser to NBY, in substantially the form of Exhibit R hereto;

(ii) an opinion of the senior legal officer of each Obligor other than NBY, in substantially the form of Exhibit S hereto;

(iii) an opinion of the senior legal adviser to the Federal Secretariat of Finance of the Guarantor, in substantially the form of Exhibit T hereto;

[(iv) an opinion of Messrs. Baker & McKenzie, special New York counsel to NBY and the Guarantor, in substantially the form of Exhibit U hereto;]

(v) an opinion of special Yugoslav counsel to the Agent and the Creditors, in substantially the form of Exhibit V hereto;

(vi) an opinion of Messrs. Coward Chance, special English counsel to the Agent and the Creditors, in substantially the form of Exhibit W hereto; and

(vii) an opinion of Messrs. Simpson Thacher & Bartlett, special New York counsel to the Agent and the Creditors, in substantially the form of Exhibit X hereto; and

(l) 1983 Event of Default. No 1983 Event of Default shall have occurred and be continuing; provided, however, that this condition precedent shall be deemed fulfilled if (i) the agent under the 1983 Financing Agreement and the Short-Term Facilities Agreement shall not have received a "Notice of Default" thereunder which has not been withdrawn describing a 1983 Event of Default which continues to be in existence as of the First Refunding and Consolidating Loan Date, (ii) no 1983 Event of Default shall have occurred and be continuing as a result of the non-payment when due of any principal of or interest on any "Advances" or "Refunding and Consolidating Loans" under the 1983 Financing Agreement or any "Extension Loans" under the Short-Term Facilities Agreement and (iii) the Agent shall have received a certificate, dated as of a date not more than five Working Days prior to the First Refunding and Consolidating Loan Date and executed and delivered on behalf of the Obligors by a duly authorized officer of the Paying Agent, to the effect that this condition precedent has been fulfilled.

SECTION 7.04. Copies of Documents. Each document (other than any telex) required to be delivered under Section 7.03 hereof shall be delivered in not fewer than three executed copies.

SECTION 7.05. Waivers of Conditions Precedent. With the prior consent of the Majority Creditors, the Agent may accept in fulfillment of any of the conditions precedent specified in Section 7.03 hereof a document not strictly complying with the terms thereof or may waive entirely the fulfillment of any such condition precedent, in either case upon such terms and conditions as may have been specified by the Majority Creditors, and if it does so, (a) such condition precedent shall thereafter be regarded as having been fulfilled and (b) the Obligors shall thereafter be deemed to be bound by any such terms and conditions to the same extent as though such terms and conditions had been set forth in this Agreement in full.

SECTION 7.06. Notice of Fulfillment of Conditions. As soon as practicable after the conditions precedent specified in Section 7.02 or 7.03 hereof shall have been fulfilled or waived, the Agent shall notify each of the Obligors, the Guarantor and the Creditors thereof, or, in the case of the conditions precedent specified in Section 7.03 hereof, if any of such conditions precedent shall have failed to be fulfilled on the First Refunding and Consolidating Loan Date, the Agent shall notify each of the Obligors, the Guarantor and the Creditors of the reasons therefor.

ARTICLE VIII

ORIGINAL GOVERNING AGREEMENTS

SECTION 8.01. Effectiveness of Original Governing Agreements. (a) Application of Original Governing Agreements. Except as otherwise provided in Sections 3.10 and 8.02 hereof and Article XI hereof or as otherwise expressly provided for herein, each Eligible Principal Payment shall continue to be governed by, and subject to, the Original Governing Agreement relating thereto until the Refunding and Consolidating Loan Date of such Eligible Principal Payment.

(b) Continuing Effectiveness, etc. Except as provided for herein with respect to Eligible Principal Payments thereunder and except for the limitation contained in paragraph (b) of Section 10.03 hereof on the exercise of any right of prepayment provided for therein, none of the terms, provisions or conditions of any Original Governing Agreement (including, without limitation, any such terms, provisions or conditions in the nature of covenants or events of default) shall be deemed modified by this Agreement, and each of such terms, provisions and conditions shall remain unchanged and in full force and effect irrespective of any voidness, avoidability or unenforceability thereof resulting from any act, omission or event taken or occurring before the date hereof or pursuant hereto (including, without limitation, any failure to satisfy any procedural or other requirements for obtaining payment under the terms of such Original Governing Agreement or under applicable law). If any Original Governing Agreement, or any obligation thereunder, is or becomes void, voidable or unenforceable as a result of any such act, omission or event, the Obligors jointly and severally agree to indemnify each Creditor party thereto against any loss incurred by such Creditor resulting therefrom.

SECTION 8.02. Limitation on Right of Acceleration. Each Creditor agrees that (except as may be necessary in the reasonable judgment of such Creditor for the preservation of rights) no default, event of default, right of acceleration or obligation to make a mandatory prepayment may be declared or exercised by it, or by any trustee or agent acting on its behalf by virtue of its having given or having omitted to give any consent or instructions, under any Original Governing Agreement or under any other agreement or instrument evidencing, governing or otherwise relating to any External Indebtedness owing to it solely by reason of a failure on the part of any Original Borrower to pay any Eligible Principal Payment on the payment date stated therefor.

SECTION 8.03. No Acceptance of Payments. (a) Eligible Principal Payments. Each Creditor hereby represents, warrants and agrees that:

(i) it has not sold, transferred or assigned, and will not sell, transfer or assign, in whole or in part, any Eligible Principal Payment held by it as at the close of business on January 17, 1983 (or on the Final Advance Date of such Eligible Principal Payment, if such Final Advance Date is later than January 17, 1983) other than to another Creditor or other person who has agreed, or will agree, to treat such Eligible Principal Payment for all purposes of this Agreement as though such other Creditor or person had held such Eligible Principal Payment as at such close of business; and

(ii) it has not taken, received or accepted, and will not take, receive or accept, directly or indirectly, any payment from any Original Borrower, in whole or in part, of principal (including any prepayment) of any Eligible Principal Payment held by it as at the close of business on January 17, 1983 (or on the Final Advance Date of such Eligible Principal Payment, if such Final Advance Date is later than January 17, 1983) other than any such payment provided for herein, unless such Creditor shall have made as of the First Refunding and Consolidating Loan Date a payment to the Original Borrower of such Eligible Principal Payment (or to an Obligor in the place of such Original Borrower) in the amount of such Eligible Principal Payment and in the currency thereof, with the intention of restoring to such Original Borrower (or such Obligor) such Eligible Principal Payment for all purposes of this Agreement (which intention and the satisfaction thereof shall be conclusively presumed from the execution and delivery by such Creditor of a Refunding and Consolidating Loan Notice with respect to such Eligible Principal Payment).

(b) Other Prepayments. Each Creditor hereby represents, warrants and agrees that it has not taken, received or accepted, and will not take, receive or accept, during the period from January 1, 1984 to December

31, 1984, directly or indirectly, any voluntary or optional prepayment, in whole or in part, of the principal of any External Indebtedness if such prepayment would cause (or would have caused if the Effective Date of this Agreement had been January 1, 1984) the Obligors to violate paragraph (b) of Section 10.03 hereof, unless such Creditor has made, or shall promptly make, a loan or advance in the amount of such prepayment to the Yugoslav Person who made such prepayment (or to any Obligor) the effect of which is to restore in all material respects such prepayment.

SECTION 8.04. Return or Notation of Eligible Principal Payment. Each Creditor agrees that, on or promptly following the Refunding and Consolidating Loan Date for each Eligible Principal Payment held by it, it will deliver to the Paying Agent or to the relevant fiscal or paying agent (and, in any event, withdraw from the processes of payment and from any commercial instruments market) any negotiable drafts, bills of exchange, notes, bonds or other instruments held by it and evidencing such Eligible Principal Payment to the extent that the same evidences such Eligible Principal Payment, and, if any such negotiable draft, bill of exchange, note, bond or other instrument evidences in addition to such Eligible Principal Payment any other outstanding indebtedness, it will, before selling, assigning or transferring the same, endorse thereon the substitution for such Eligible Principal Payment of the Refunding and Consolidating Loan made in respect thereof on such Refunding and Consolidating Loan Date.

ARTICLE IX

REPRESENTATIONS AND WARRANTIES

SECTION 9.01. Representations and Warranties of Each Obligor. In order to induce the Creditors and the Agent to enter into this Agreement and the Creditors to make the Refunding and Consolidating Loans contemplated hereby, the Obligors hereby jointly and severally represent and warrant to each of the Creditors and the Agent as follows (with references in this Section 9.01 to "Obligor" being deemed to include, in the case of NBY and wherever the context permits, NBY in its capacity as Paying Agent hereunder):

(a) Corporate Existence, etc. Each Obligor is a legally constituted corporate or other judicial entity, duly established and existing as such under the laws of Yugoslavia. NBY is the central bank, bank of issue and monetary authority of Yugoslavia;

(b) Authorization. The execution, delivery and performance by each Obligor of this Agreement and the Refunding and Consolidating Loan Notices contemplated hereby have been, or prior to the Effective Date will be, duly authorized by all necessary legislative, executive, administrative and other governmental and corporate (or comparable internal) action and do not contravene any provision of the charter, by-laws or other governing rules or documents of such Obligor, or any provision of any law, regulation, order or contractual restriction binding on or affecting such Obligor or any of its property;

(c) Required Approvals. All actions and conditions required to be taken, fulfilled or performed in order to enable each Obligor to execute, deliver and perform this Agreement and to make it admissible in evidence in the courts of Yugoslavia as a valid, legally binding and enforceable obligation of such Obligor have been taken, fulfilled or performed (as the case may be). No authorization or approval (including, without limitation, any exchange control approval) or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by any Obligor of this Agreement or any Refunding and Consolidating Loan Notice, except for any such authorization, approval, action, notice or filing which has been, or prior to the First Refunding and Consolidating Loan Date will be, duly obtained or made and which on the First Refunding and Consolidating Loan Date will be unconditional and in full force and effect;

(d) Legal Effect. This Agreement is the legal, valid and binding obligation of each Obligor, enforceable against such Obligor in accordance with its terms;

(e) Direct Obligation. This Agreement is the direct, unconditional and general obligation of each Obligor;

(f) Pari Passu Status. The obligations of each Obligor under this Agreement rank and will rank at least pari passu in priority of payment and in all other respects with all other unsecured claims on each Obligor (except wage, social security and similar claims not constituting External Indebtedness which have a priority under applicable law). There is no Lien upon or with respect to any of the properties (including, without limitation, any gold or other International Monetary Assets) or revenues of any Obligor, which secures, or otherwise provides for payment of, any External Indebtedness of any Obligor, except as permitted by paragraph (a) of Section 10.03 hereof;

(g) No Litigation. There is no pending or, to the best of the knowledge of any Obligor, threatened action or proceeding affecting any Obligor before any court, governmental agency or arbitrator which, by itself or in the aggregate with any other actions or proceedings, will adversely affect the ability of the Obligors to perform their obligations under this Agreement or which purports to affect the legality, validity or enforceability against any Obligor of this Agreement;

(h) No Immunities. Each Obligor is subject to civil and commercial law with respect to its obligations under this Agreement, and the execution, delivery and performance by each Obligor of this Agreement constitute commercial acts rather than public or governmental acts. Neither any Obligor nor any of its properties has any immunity (sovereign or otherwise) from jurisdiction of any Yugoslav court or from set-off or any legal process, whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution of judgment, arrest of property or otherwise, under the laws of Yugoslavia (other than immunity from execution in respect of its assets (if any) constituting (i) mines or ore in mines, (ii) means of collective consumption, including educational facilities and pension and social security funds, (iii) means and facilities for national defense and security and (iv) fixed assets of agricultural, forestry and scientific research enterprises indispensable to the conduct of the business thereof), and to the extent that any Obligor is entitled to any such immunity outside Yugoslavia, it has effectively and irrevocably waived such immunity to the fullest extent permitted by applicable law pursuant to paragraph (b) of Section 14.08 hereof;

(i) Taxes. There is no Applicable Tax, and no Other Applicable Tax, imposed by Yugoslavia or any political subdivision thereof or taxing authority therein, due or payable either on or by virtue of the execution or delivery by any Obligor, any Creditor or the Agent of this Agreement, any Refunding and Consolidating Loan Notice or any document to be furnished hereunder or on any payment to be made by any Obligor pursuant hereto or thereto, including, without limitation, payment of principal, interest, fees, commissions or expenses;

(j) Necessary Recordings. This Agreement is in proper legal form under Yugoslav law for the enforcement thereof against each Obligor under Yugoslav law. In order to ensure the legality, validity, enforceability or admissibility in evidence of this Agreement or any Refunding and Consolidating Loan Notice in any proceeding involving any Obligor in the courts of Yugoslavia, it is not necessary that any stamp or similar tax be paid on or in respect of this Agreement or such Refunding and Consolidating Loan Notice or that this Agreement or such Refunding and Consolidating Loan Notice or any other document be filed or recorded with any court or other authority in Yugoslavia, except for a registration of the report of concluded credit transaction in respect of the obligations of each Obligor (other than NBY) under this Agreement with [the national bank of the republic or autonomous province of Yugoslavia in which the principal office of such Obligor is located] , which registration will be duly made before the First Refunding and Consolidating Loan Date;

(k) Enforcement. In any proceeding taken in Yugoslavia in connection with, or for the enforcement against any Obligor of, this Agreement, effect will be given to the choice of the law of the State of New York as the governing law of this Agreement, and any final and conclusive judgment against any Obligor on or relating to this Agreement which is obtained in the courts of the State of New York, in the Federal courts of the United States of America sitting in New York City or in the High Court of Justice in England will be recognized and enforced in Yugoslavia, provided that (i) such judgment does not violate or contravene the basis of the social system determined by the Constitution of Yugoslavia, (ii) a Yugoslav court, or other agency of Yugoslavia, does not have exclusive jurisdiction, (iii) it was not impossible for such Obligor to participate in such proceedings due to irregularities therein (and not by virtue of any Yugoslav law, regulation or rule restricting the ability of such Obligor to participate therein) and, in particular, service of process relating to the proceedings giving rise to such judgment was received by or attempted to be made on such Obligor or its duly appointed agent or such Obligor entered in such proceedings, (iv) such judgment is final under the local law where rendered, (v) the courts of the jurisdiction rendering such judgment would enforce a Yugoslav judgment and (vi) in the same matter, a Yugoslav court, or other agency of Yugoslavia, did not render a final decision or, in the same matter, another foreign judgment was not recognized;

(l) Representations Made in Information Memorandum. To the best knowledge of each Obligor, each statement contained in the Information Memorandum, a copy of which has been furnished to each Creditor, is true and accurate in all material respects, and to the best knowledge of each Obligor, the Information Memorandum does not omit to state any material fact or any fact necessary to make the statements contained therein not misleading. Since the date of the Information Memorandum, there has been, to the best knowledge of each Obligor, no material adverse change in the financial condition or operations of any Obligor;

(m) Control of International Monetary Assets. Consistent with the foreign exchange laws and regulations of Yugoslavia as in effect on the date hereof and as in effect from time to time hereafter so long as any Refunding and Consolidating Loan remains outstanding in whole or in part: substantially all of the Foreign Currency of all Yugoslav Obligors and of citizens of Yugoslavia resident in Yugoslavia are held by, or subject to the disposition of, NBY and the other Obligors, subject to the rights of Yugoslavia with respect thereto; and, substantially all of the other International Monetary Assets of all Yugoslav Obligors and of such citizens are held by, or subject to the disposition of, NBY, subject to the rights of Yugoslavia with respect thereto. The Foreign Currency held by, or subject to the disposition of, the Obligors other than NBY is available, and to the extent required will be promptly remitted by such Obligors, to NBY for application by NBY in its capacity as Paying Agent to the obligations of the Obligors hereunder, and such availability and remittance shall be on terms consistent with the joint and several nature of the obligations of the Obligors hereunder and are in accordance with applicable Yugoslav banking laws and regulations. The International Monetary Assets held by, or subject to the disposition of, NBY are available to NBY for application by it in its capacity as Paying Agent to the obligations of the Obligors hereunder. Consistent with understandings with the IBRD as set forth in a letter from the Federal Secretary of Finance of Yugoslavia to the President of the IBRD and summarized (in relevant part) on Schedule 5 hereto, it is the intention of Yugoslavia to implement and maintain adequate monitoring and control systems to effectively support the policy of Yugoslavia to maximize the amount of the Foreign Currency owned by Yugoslav Persons (other than Yugoslav Obligors and citizens of Yugoslavia resident in Yugoslavia) that is placed on deposit with the Obligors, including effective repatriation, subject to any applicable non-Yugoslav laws and regulations and to the working capital requirements of such Yugoslav Persons. Each of NBY and the Obligors has the power, independently and under its own responsibility, to deal in, and authorize the transfer from Yugoslavia of, Foreign Currency and will undertake to use such power and all other legal measures available to it to facilitate the payment when due of all principal of and interest and other amounts due on the External Indebtedness owing by it to the Creditors; and

(n) Barter and Clearing Arrangements. The Government of Yugoslavia subscribes to the purposes of the IMF to assist in the establishment of a multilateral system of payments in respect of current transactions between countries and in the elimination of foreign exchange restrictions which hamper the growth of world trade. Therefore, Yugoslavia subscribes to the policy not to conclude bilateral payments agreements which are inconsistent with the Articles of Agreement of the IMF. On the basis of the foregoing, and where the existing bilateral payments agreements continue to exist, continuous Yugoslav economic policies are to avoid the creation of large and permanent surpluses on clearing accounts.

The representations and warranties contained in this Section 19.01 (other than in paragraphs (g) and (l) thereof) shall be deemed to be made, restated and confirmed by the Obligors jointly and severally on each Interest Payment Date.

SECTION 19.02. Representations, Warranties and Certain Agreements of each Creditor. Each Creditor hereby represents and warrants to, and agrees with, each of the other Creditors, each ICC Member (as hereinafter defined) and the Agent as follows:

(a) Independent Investigation by Each Creditor. Each Creditor is generally familiar with such matters (including, without limitation, the economic affairs and financial condition of each of the Obligors and the Guarantor) as in its opinion may affect the performance by each of the Obligors and the Guarantor of its obligations hereunder and has made its own independent evaluation of the economic affairs, financial condition, International Monetary Assets, Exportable Assets, prospective foreign exchange income, creditworthiness and legal status and nature of each of the Obligors and the Guarantor. Each Creditor will continue to be solely responsible for making its own independent appraisal of all such matters in the future and has not relied, and will not rely, on any other Creditor, the Agent or any ICC Member (i) to check or inquire on behalf of such Creditor into the adequacy, accuracy or completeness of any information provided by any of the Obligors and the Guarantor in connection herewith, whether or not such information has been or is hereafter distributed by any other Creditor, any ICC Member or the Agent, or (ii) to inform such Creditor concerning the results of any such appraisal, check or inquiry made by such other Creditor, any ICC Member or the Agent or any of their respective affiliates. Each Creditor acknowledges that such Creditor has received the Information Memorandum;

(b) Independent Appraisal of Each Creditor. In deciding whether or not to enter into this Agreement, each Creditor has relied upon its own independent evaluation of the matters referred to in paragraph (a) of this Section 19.02, and such Creditor is not relying upon (i) any representation or warranty, express or implied, made to it by any other Creditor, any ICC Member or the Agent with respect to the matters contemplated hereby or (ii) any oral or written communication made by any other Creditor, any ICC Member or the Agent;

(c) Refunding and Consolidating Loan Notices. Each Creditor has executed and delivered, or on or before February , 1985 will execute and deliver, for receipt by the Agent a completed Refunding and Consolidating Loan Notice in respect of each Eligible Principal Payment held by it as at the close of business on January 17, 1983 (or on the Final Advance Date of such Eligible Principal Payment, if such Final Advance Date is later than January 17, 1983), unless (i) such Creditor has sold, transferred or assigned such Eligible Principal Payment in whole to another Creditor or other person who has agreed, or on or before February __, 1985 will agree, to treat such Eligible Principal Payment for all purposes of this Agreement as though such other Creditor or person had held such Eligible Principal Payment as at such close of business or (ii) such Creditor is a party hereto solely in connection with one or more Eligible Principal Payments held by it under syndicated loan arrangements;

(d) Completion of Eligible Principal Payments. Each Creditor will take all action (whether by demand under guarantees or otherwise) which may be necessary to ensure that all External Indebtedness owed to it capable of being an Eligible Principal Payment becomes an Eligible Principal Payment on or prior to December 31, 1984 (other than by accelerating any stated maturity date of such External Indebtedness pursuant to any event of default or similar provision in any instrument or agreement evidencing, governing or otherwise relating thereto); and

(e) Notice of Set-Off. Each Creditor will promptly notify the Agent after any set-off and application made pursuant to paragraph (a) of Section 14.06 hereof by such Creditor.

ARTICLE X

COVENANTS

SECTION 10.01. Information Covenants. (a) Reporting Requirements of Obligors. So long as any

Refunding and Consolidating Loan remains outstanding in whole or in part, each Obligor covenants and agrees to furnish to the Agent (in sufficient copies to permit the distribution thereof to the Creditors), within 180 days after the end of its fiscal year, its financial statements for such year (including, without limitation, a statement of condition as at the end of such year and a statement of earned surplus or deficit for such year), which financial statements, in each case, shall have been prepared on substantially the same basis as the financial statements of such Obligor most recently furnished to its lenders prior to the date hereof and shall be certified by a duly authorized officer of such Obligor as having been prepared in accordance with the law of, and accounting standards generally in effect in, Yugoslavia and as giving a true and fair representation of its financial condition as at the end of, and of its results for, the relevant fiscal year.

(b) Reporting Requirements of NBY. So long as any Refunding and Consolidating Loan remains outstanding in whole or in part, NBY covenants and agrees:

(i) to furnish or cause to be furnished to the Agent (in sufficient copies to permit the distribution thereof to the Creditors, but without duplication of any distribution under the Short-Term Facilities Agreement or the 1983 Financing Agreement):

(A) within 90 days after the end of each calendar year, a document prepared by, and certified by a duly authorized representative of, NBY, containing in respect to such calendar year the same kind of information and in similar detail and prepared on substantially the same basis as that contained in the Information Memorandum in respect of 1983; and

(B) within 60 days after each March 31, June 30, September 30 and December 31, an information statement certified by a duly authorized representative of NBY, for the quarter ending on such date and containing the information contemplated by Schedule 6 hereto; and

(ii) to furnish or cause to be furnished to the Agent (in at least one copy suitable for copying to permit the distribution of one copy to each Creditor which requests a copy pursuant to this subparagraph (ii), but without duplication of any distribution under the Short-Term Facilities Agreement or the 1983 Financing Agreement):

(A) within 30 days after the furnishing or receipt thereof (as the case may be), each financial report regarding Yugoslavia or any Agency which is prepared by the IMF or the IBRD and made available to NBY, the Guarantor or any other Agency and which is relevant to any facilities maintained or granted (or to be granted) by the IMF or the IBRD to Yugoslavia and each report furnished to the IMF by the Guarantor with respect to compliance by it with the IMF Stand-by Arrangement;

(B) within 30 days of the consummation of any arrangement with the IMF or the IBRD for the extension of credit to Yugoslavia or any Agency, a summary of such arrangement, including, without limitation, details of the amounts and forms in which, and the dates at which, such credit is to be made available and the terms upon which such credit is to be paid or discharged (which summary, in the case of any such arrangement with the IBRD, may take the form of a copy of the President's Report with respect thereto);

(C) within 30 days after the execution and delivery of an agreement constituting a [Geneva Arrangement], a copy thereof;

(D) within 30 days after NBY obtains knowledge of the execution and delivery of any agreement or instrument which relates to the refinancing, extension or payment of any Principal Payment subject to the provisions of Section 4.02 hereof, a summary of the terms of such agreement or instrument, including, without limitation, details of the amount, currency and form of such Principal Payment, the person to whom such Principal Payment is owed and the financial terms on which such Principal Payment is to be maintained and paid or discharged (including the fees and interest rate to be payable in respect of such Principal Payment and the principal installment dates and amounts) (and, in connection with this subparagraph (D), NBY hereby agrees that it has taken, and will take, all reasonable steps necessary or useful to assure that it receives prompt notice of the execution and delivery of any such agreement or instrument);

(E) promptly after the preparation thereof, any quarterly economic bulletin of Yugoslavia (English edition) published by or on behalf of NBY; and

(F) within 60 days after the adoption or promulgation thereof, a copy of any national economic or similar plan for Yugoslavia.

(c) Notice Requirements. So long as any Refunding and Consolidating Loan remains outstanding in whole or in part, each Obligor covenants and agrees to furnish to the Agent (in such copies as may be reasonably requested by the Agent without duplication of any request under the Short-Term Facilities Agreement or the 1983 Financing Agreement):

(i) upon the occurrence of (A) any Event of Default, or any event or condition which, with the giving of notice or the lapse of time or both or the fulfillment of any other requirement, would constitute an Event of Default, or (B) any application of any of the International Monetary Assets or Exportable Assets to the satisfaction (in whole or in part) of any Principal Payment which has the effect of causing the provisions of paragraph (b) of Section 4.02 hereof to become applicable in accordance with the terms of paragraph (a) of said Section 4.02, notice of such Event of Default, such event or condition or such application (as the case may be) and of any action taken or proposed to be taken by any Obligor with respect thereto;

(ii) upon the commencement of, or the occurrence of any material change in the status of, any proceeding involving any Obligor, the Guarantor or any Agency or, to the best knowledge of such Obligor, any Original Borrower for the collection of, or challenging the legality, validity, binding effect or enforceability of, any agreement or instrument evidencing, governing or otherwise relating to any material External Indebtedness (including, without limitation, any Principal Payment), notice of such commencement or such material change, in reasonable detail; and

(iii) such further information and reports regarding the economic affairs, financial condition, International Monetary Assets, Exportable Assets, barter arrangements, clearing arrangements or legal status and nature of any Obligor or the Guarantor, as the Agent may from time to time reasonably request.

(d) Review of Reports. NBY agrees that at approximately six-month intervals, but no less often than once annually, its authorized and appropriate representatives will meet with representatives of the Creditors that are serving as members of the economics sub-committee referred to in paragraph (i) of Section 13.02 hereof. NBY agrees to arrange or cause to be arranged meetings with such authorized and appropriate representatives of such appropriate institutions or organizations within Yugoslavia as the said representatives of the Creditors reasonably request. The purpose of each such meeting will be to review in detail the then current information statement delivered pursuant to subparagraph (i) of paragraph (b) of this Section 10.01 and any such other data or information relating to Yugoslav economic performance, balance of payments, foreign debt, economic policy and reforms, and the operation of the foreign exchange system as may be reasonably requested. NBY also agrees that it will use its best efforts to arrange for the said representatives of the Creditors to contact representatives of such economic institutions or organizations as the said representatives shall, upon reasonable notice, request to contact. At the end of each set of meetings arranged pursuant to this paragraph (d), said representatives of the Creditors shall prepare a summary transcript thereof and forward a copy to the Agent for distribution to the Creditors. If any report regarding any set of such meetings is prepared by said representatives of the Creditors and such report is obtained by any Creditor (upon its request or otherwise), such Creditor hereby agrees that, notwithstanding its review of such report, such Creditor will continue to be solely responsible for making its own independent evaluation of all matters contained therein as provided in paragraph (a) of Section 19.02 hereof. The agreements of NBY in this paragraph (d) shall, so long as paragraph (d) of Section 11.01 of the 1983 Financing Agreement is in effect and is substantially identical to this paragraph (d) (but for the presence of this sentence), be deemed observed and performed to the extent that NBY observes and performs its agreements under paragraph (d) of said Section 11.01.

SECTION 10.02. Affirmative Covenants of the Obligors. So long as any Refunding and Consolidating Loan remains outstanding in whole or in part, the Obligors jointly and severally covenant and agree that each Obligor (with such reference to "Obligor" being deemed to include, in the case of NBY and to the extent that the context in this Section 10.02 permits, NBY in its capacity as the Paying Agent hereunder) will:

(a) Compliance with Law. Comply in all material respects with all applicable laws, regulations and orders, such compliance to include, without limitation, paying when due all taxes, assessments and governmental charges imposed upon it or its property, except to the extent contested in good faith;

(b) Maintenance of Approvals. Duly obtain and maintain in full force and effect all governmental approvals (including any exchange control approvals) required under the laws of Yugoslavia for the execution, delivery and performance by such Obligor of this Agreement or for the validity, legality or enforceability hereof and duly take all necessary and appropriate governmental and administrative action in Yugoslavia in order to make all payments to be made hereunder as required by this Agreement;

(c) Maintenance of Pari Passu Status. Ensure that at all times the claims of the Creditors and the Agent against such Obligor under this Agreement rank at least pari passu in priority of payment and in all other respects with all other unsecured External Indebtedness of such Obligor;

(d) Planning of Resources. Include in any projections or other planning aid that it may prepare for each calendar year in respect of its Foreign Currency resources, receipts and uses amounts sufficient to permit the payment by it, together with the other Obligors, of the principal of and interest on the Refunding and Consolidating Loans and all other amounts payable by the Obligors hereunder during such calendar year in accordance with the terms hereof;

(e) Payment of Arrears. Pay when due any amount owing by such Obligor to any Creditor which, if not so paid, would become an Arrear and use its best efforts to ensure that each other Yugoslav Obligor shall pay when due any such amount owing by such other Yugoslav

Obligor to any Creditor (including any such Arrear in the nature of an A Forfait Deduction which is due and payable on the maturity date of the related A Forfait Transaction);

(f) Consummation of Geneva Arrangements. Use its best efforts to consummate with each of the Cooperating States a Geneva Arrangement complying with the requirements of the Geneva Accord (and, in any event, not make any payment on account of the principal of any External Indebtedness subject to the Geneva Accord prior to the execution and delivery of a Geneva Arrangement covering such External Indebtedness); and

(g) Use of IBRD Facilities. Use its best efforts to obtain from the IBRD the maximum loan and credit facilities that could be available to Yugoslavia under arrangements with the IBRD (other than any such arrangements requiring that the proceeds made available thereunder be used in designated capital projects).

SECTION 10.03. Negative Covenants of the Obligors. So long as any Refunding and Consolidating Loan remains outstanding in whole or in part, the Obligors jointly and severally covenant and agree that no one of them will, and that each of them will use its best efforts to ensure that no other Yugoslav Obligor or any corporation or other business entity (whether Yugoslav or non-Yugoslav) owned or controlled by a Yugoslav Obligor will:

(a) Negative Pledge. Create, incur, assume or permit to exist any Lien upon or with respect to any of its existing or future properties (including, without limitation, International Monetary Assets) or revenues, in each case to secure or provide for the payment of External Indebtedness or upon or with respect to its International Monetary Assets, other than:

(i) Liens upon any tangible personal or real property acquired or held to secure the purchase price of such tangible personal or real property or to secure External Indebtedness incurred solely for the purpose of financing the substantially contemporaneous acquisition of such tangible personal or real property;

(ii) Liens existing on tangible personal or real property at the time of its acquisition;

(iii) Liens on any real or tangible personal property hereafter acquired, constructed or improved in connection with any public utility, industrial or natural resource project, created or assumed contemporaneously with, or within 120 days after, such acquisition or completion of such construction or improvement, to secure External Indebtedness incurred to provide for the payment of any part of the purchase price or the cost of such construction or improvement, provided that the lenders in respect of such External Indebtedness (A) have expressly agreed to look to such project and the revenues to be generated by its operation or the loss of or damage to such project as the principal sources of repayment for such External Indebtedness and (B) have been provided with a feasibility study prepared in good faith on the basis of adequate information by competent independent experts indicating that such project would generate sufficient International Monetary Assets to repay the principal of and interest on such External Indebtedness;

(iv) Liens constituting the renewal or extension of any Lien permitted by subparagraphs (i), (ii) and (iii) of this paragraph (a) solely with respect to the property theretofore subject to such Lien, provided that the principal amount of the External Indebtedness secured thereby shall not be increased except to the extent of capitalized interest thereon;

(v) Liens existing on January 17, 1983;

(vi) Liens arising exclusively by operation of the law of any jurisdiction other than Yugoslavia;

(vii) Liens arising in connection with contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals, provided that such Liens apply only to such precious metals and to the proceeds thereof, and Liens securing bid and performance bonds necessary for the conduct of, and obtained in the ordinary course of, business;

(viii) Liens which arise in the ordinary course of customary and regular trade transactions (including the financing thereof) on Foreign Currency or on the goods financed by any such transaction or the proceeds thereof or the documents of title relating thereto or claims which would arise in the event of loss or damage to such goods, provided that the indebtedness related thereto shall have a maturity of less than one year from the date on which the same was incurred, and provided, further, that the amount of such indebtedness is not less than the value of the collateral security for the payment thereof; and

(ix) Liens created by an Obligor (other than NBY) which arise in the ordinary course of transacting its banking business, which are considered normal banking transactions, which do not secure External Indebtedness, which are not over International Monetary Assets and which do not represent a departure from the manner in which the business of such Obligor was conducted prior to the date of this Agreement.

In construing this paragraph (a) the following types of arrangements shall be deemed to create Liens:

(x) counterpart deposit arrangements created after the date hereof pursuant to an agreement, express or implied, under which deposits having a simultaneous maturity with, and being substantially in the same amount as, the indebtedness owed are placed with or for the benefit of a creditor;

(y) sales with recourse of accounts receivable or other rights to receive money and purchases under conditional sale agreements; and

(z) advance payment arrangements or agreements which constitute an agreement or arrangement (other than a barter arrangement or clearing arrangement) entered into otherwise than in the ordinary course of business and under which the creditor to whom the relevant indebtedness is owed acquires rights to satisfy such indebtedness or any part thereof with or by application of any particular assets or revenues; or

(b) Purchase, Prepayment, etc. of External Indebtedness. Purchase, make any voluntary or optional prepayment on account of, or provide for the retirement or defeasance prior to the stated maturity of, any External Indebtedness of any Yugoslav Obligor [(other than [(i)] the "Advances", the "Refunding and Consolidating Loans" and any other External Indebtedness which is subject to the Short-Term Facilities Agreement or the 1983 Financing Agreement or which is made available under any agreement or instrument permitting the Yugoslav Obligor party thereto to resell or reborrow, or otherwise to reuse, the advances, loans or other extensions of credit being purchased, prepaid, retired or deferred, subject only to such conditions as such Yugoslav Obligor in good faith determines can be anticipated to be fulfilled [or (ii) any other External Indebtedness incurred on or after January 18, 1983 otherwise than (A) for the purpose, directly or indirectly, subject to clause (i) of this paragraph (b), of replacing, discharging or refinancing (in whole or in part) a debt which was incurred before January 18, 1983 or (B) pursuant to a written commitment in effect as at the close of business on January 17, 1983])] .

ARTICLE XI

INTERIM GUARANTY

SECTION 11.01. Guaranty. The Obligors hereby unconditionally and irrevocably guarantee (as primary obligors and not merely as sureties) the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of each Yugoslav Obligor in respect of each Eligible Principal Payment constituting Incorporated Debt from and after the later of the Effective Date or the date on which the Agent receives the Refunding and Consolidating Loan Notice related thereto (such obligations being herein called the "Guaranteed Obligations"), provided that the guaranty in this Article XI in respect of such Eligible Principal Payment shall be deemed satisfied by the making of, and the acceptance by the Obligors of, a Refunding and Consolidating Loan in respect of such Eligible Principal Payment.

SECTION 11.02. Terms of Guaranty. The Obligors guarantee that the Guaranteed Obligations will be paid or discharged in accordance with the terms of the relevant

Original Governing Agreements, except as expressly contemplated hereby, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Agent or the Creditors with respect thereto. The liability of the Obligors under the provisions of this Article XI shall be absolute, irrevocable and unconditional irrespective of:

(a) any lack of validity or enforceability of such Original Governing Agreements or any other agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Guaranteed Obligations, or any other amendment or waiver of, or any consent to departure from, such Original Governing Agreements;

(c) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of, or consent to departure from, any other guaranty, for all or any part of the Guaranteed Obligations;

(d) any change in the nature, condition, status or function of any Yugoslav Obligor; or

(e) any other circumstance (other than payment in full) which might otherwise constitute a defense available to, or a discharge of, any Yugoslav Obligor in respect of the Guaranteed Obligations or of any Obligor in respect of the provisions of this Article XI.

The provisions of this Article XI shall continue to be effective or be reinstated (as the case may be) if at any time any payment of any of the Guaranteed Obligations is rescinded or must otherwise be returned by any Creditor for any reason, all as though such payment had not been made.

SECTION 11.03. <u>Further Terms of Guaranty</u>. Each of the Obligors hereby waives promptness, diligence, presentment, demand, notice of acceptance and any other notice with respect to any of the Guaranteed Obligations and any requirement that any Creditor protect, secure, perfect or insure any security interest or lien or any property subject thereto or exhaust any right or take any action against any Yugoslav Obligor or any other person or any collateral.

SECTION 11.04. Continuing Guaranty. The provisions of this Article XI constitute a continuing guaranty of payment and shall remain in full force and effect until payment or discharge in full of the Guaranteed Obligations.

ARTICLE XII

EVENTS OF DEFAULT

SECTION 12.01. Events of Default. If any of the following events (the "Events of Default") shall occur and be continuing:

(a) any Obligor shall fail to pay any amount of principal of or interest on any Refunding and Consolidating Loan when due, or fails to pay any other sum payable by it hereunder from time to time within five Working Days after demand for payment shall have been made; or

(b) any representation, warranty or certification made or deemed made by any Obligor, the Paying Agent or the Guarantor (or any of their respective officers or officials) under or in connection with this Agreement or the Guaranty (including without limitation, in any notice, certificate, statement or other document delivered by it pursuant hereto or thereto, except for any preliminary notice, statement or other document delivered in connection with the process of reconciling the amount or terms of any Eligible Principal Payment, Arrears or Interest Adjustment Amount) shall prove to have been misleading in any material respect when made; or

(c) any Obligor or the Guarantor shall fail to perform or observe any of the covenants contained in Section 10.03 hereof or in Section 3 of the Guaranty (and, in the case of any failure of any Obligor to use its best efforts as required by Section 10.03 hereof with respect to any corporation or other business entity which is owned or controlled by a Yugoslav Obligor but which is not a Yugoslav Obligor, such failure shall remain unremedied for 15 days after written notice thereof shall have been given to the Paying Agent by the Agent or any Creditor); or

(d) any Obligor or the Guarantor shall fail to perform or observe any term, covenant or agreement contained in this Agreement or the Guaranty on its part to be performed or observed (other than any subject to paragraphs (a), (b) and (c) of this Section 12.01) and any such failure shall remain unremedied for 30 days after written notice thereof shall have been given to the Paying Agent or the Guarantor by the Agent or any Creditor; or

(e) on or after the Effective Date any Obligor or the Guarantor shall fail to pay any External Indebtedness owing to any Creditor (other than the Refunding and Consolidating Loans, which are subject to the provisions of paragraph (a) of this Section 12.01, and other than any Principal Payment or Excluded Debt owing to such Creditor) or any interest or premium thereon, within 15 Working Days after the date when due (whether at scheduled maturity or by required prepayment, acceleration, demand or otherwise), unless such External Indebtedness is due solely by virtue of an acceleration or obligation to make a mandatory prepayment which has been declared or exercised in contravention of Section 8.02 hereof or which is permitted thereby in order to enable a Creditor to preserve its rights; or, on or after the Effective Date any other default under any agreement or instrument evidencing, governing or otherwise relating to any such External Indebtedness owing to a Creditor, or any other event constituting an event of default under such agreement or instrument, shall occur and shall continue unremedied for 15 Working Days after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such External Indebtedness; or, due to any such other default under any such agreement or instrument, any such External Indebtedness owing to a Creditor shall on or after the Effective Date be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof; or

(f) any one or more creditors of any Obligor or the Guarantor shall take, or in the opinion of the Majority Creditors are likely to take, action to seize, attach or sequester, or to set off or apply against, any part of the present or future assets (including, without limitation, International Monetary Assets or

Exportable Assets) or revenues of such Obligor or the Guarantor (as the case may be), in order to satisfy or discharge, or to secure, External Indebtedness of such Obligor or the Guarantor (as the case may be) in an aggregate principal amount outstanding in excess of U.S.$10,000,000 (or its equivalent in one or more other currencies), unless (i) such action has been effectively stayed by the posting of a bond or by other appropriate legal measures or (ii) either (A) the Majority Creditors have given their consent to such action or (B) the Majority Creditors have failed to waive the provisions of Section 4.02 hereof, Section 5.02 of the Short-Term Facilities Agreement or Section 5.02 of the 1983 Financing Agreement with respect to the payment of such External Indebtedness and such payment would cause the provisions of Section 4.02 hereof or Section 5.02 of the Short-Term Facilities Agreement or Section 5.02 of the 1983 Financing Agreement (as the case may be) to become applicable in accordance with the terms thereof; or

(g) NBY shall generally not pay its External Indebtedness as it becomes due on or after the Effective Date; or, any Obligor other than NBY shall generally not pay its External Indebtedness as it becomes due on or after the Effective Date, unless such External Indebtedness has been appropriately assumed and is being paid by another person; or, any Obligor shall admit in writing its inability to pay its External Indebtedness generally on or after the Effective Date; or, the Guarantor shall admit in writing its inability to pay its External Indebtedness generally; or, any Obligor or the Guarantor shall, at any time, declare a moratorium on the payment of its External Indebtedness; or

(h) if, in the good faith judgment of the Majority Creditors, as a result of events which have occurred after the date hereof, an extraordinary situation shall have arisen which shall make it improbable that the Obligors or the Guarantor will be able to perform their obligations under this Agreement and the Guaranty; or

(i) the validity of this Agreement or the Guaranty or any material provision hereof or thereof shall be contested by any Obligor or the Guarantor (or by any legislative, executive or judicial body thereof), or any Obligor or the Guarantor shall deny liability hereunder or thereunder (whether by a repudiation or general suspension of payments hereunder or otherwise), or any Yugoslav treaty, law, regulation, decree, ordinance or official policy shall purport to render any material provision of this Agreement or the Guaranty void, invalid or unenforceable or shall purport to prevent or materially delay the performance or observance by any Obligor or the Guarantor of its obligations hereunder or thereunder; or

(j) any governmental authorization or approval necessary to enable any Obligor or the Guarantor to comply with, or to perform, any of its obligations under this Agreement or the Guaranty shall be revoked, withdrawn or withheld or shall otherwise fail to be issued or to remain in full force and effect; or

(k) Yugoslavia shall cease to be a member, or eligible to use the general resources, special drawing rights and other facilities of, the IMF; or, its right to use the general resources, special drawing rights and other facilities of the IMF is limited pursuant to the rules and regulations of the IMF; or, the right of Yugoslavia to use any IMF Stand-by Arrangement shall be limited or suspended; or

(l) Yugoslavia shall for any reason fail to make [use of all of the drawings made available to it under the 1984 IMF Stand-by Arrangement before April __, 1985]; or

(m) Yugoslavia shall cease to be a member of, or shall be suspended from membership in, the IBRD, and the Majority Creditors shall determine in their sole discretion that such cessation or suspension shall constitute an Event of Default; or, Yugoslavia shall cease to be able to make drawings contemplated in respect of the structural adjustment loans referred to in paragraph (e) Section 7.03 hereof; or

(n) any Obligor or Yugoslavia shall breach any of its representations or agreements contained in any Berne Arrangement or Geneva Arrangement to which it is a party if the effect of such breach is (i) to terminate, or to permit the relevant Cooperating State to terminate, any agreement or obligation in such Berne Arrangement or Geneva Arrangement to provide financing or refinancing for Yugoslavia or (ii) to accelerate, or to permit such Cooperating State to accelerate, any financing or refinancing for Yugoslavia outstanding thereunder; or

(o) NBY shall not at any time be the bank of issue, central bank or monetary authority of Yugoslavia; or

(p) any steps are taken for the merger, consolidation or amalgamation of any Obligor, or for the sale or other transfer of all or substantially all of the assets of any Obligor or for the division or dissolution of any Obligor, or any event occurs under Yugoslav law which has an equivalent effect, except for the merger, consolidation or amalgamation of any Obligor with or into, or for the sale or other transfer of all or substantially all of the assets of any Obligor to, another Obligor or another person who (unless such other person shall not be the resulting entity) shall have expressly assumed the liabilities, duties and obligations of such Obligor hereunder pursuant to a supplement to this Agreement in substantially the form of Exhibit Y hereto; or, any Obligor ceases in any material respect to carry on the business and functions it carries on on the date hereof or materially changes the nature of its business or functions; or

(q) any writ, execution, attachment or similar process is levied against any substantial portion of the assets of any Obligor or the Guarantor (other than any such assets denominated in Yugoslav Dinars, unless Yugoslav Dinars become freely convertible into U.S. Dollars) in connection with any judgment against it, and such writ, execution, attachment or other process is not released, bonded, satisfied, discharged, vacated or stayed within 30 days, unless such judgment (i) relates to the non-payment of any External Indebtedness the payment of which would cause the provisions of Section 4.02 hereof, or Section 5.02 of the Short-Term Facilities Agreement or Section 5.02 of the 1983 Financing Agreement to become applicable in accordance with the terms thereof or (ii) is obtained in connection with an acceleration or obligation to make a mandatory prepayment on account of External Indebtedness of such Obligor or the Guarantor (as the case may be) which has been declared or exercised in contravention of Section 8.02 hereof or which is permitted thereby in order to enable a Creditor to preserve its rights; or

(r) as at February , 1985, any Yugoslav Obligor shall have failed to agree with a Creditor following reconciliation by the Administrative Coordinator upon the details of any Refinancing and Consolidating Loan Notice in respect of an Eligible Principal Payment and/or to execute the same, unless such failure results from a bona fide dispute which cannot be resolved by the Administrative Coordinator; or

(s) the Guaranty or the guaranty provided for in Article XI hereof shall cease to be in full force and effect; or

(t) a 1983 Event of Default shall occur and be continuing,

then, and in any such event, the Agent shall at the request, or may with the consent, of the Majority Creditors, by notice to the Paying Agent and the Guarantor, do any one or more of the following: (x) declare the Commitment of each Creditor to be terminated, whereupon the same shall forthwith terminate, (y) declare the Refunding and Consolidating Loans outstanding and to be outstanding to be due and payable on demand of the Agent at the request, or with the consent, of the Majority Creditors, whereupon such Refunding and Consolidating Loans, all interest accrued and unpaid thereon and all other amounts payable hereunder shall become and be due and payable on such demand, and (z) declare the Refunding and Consolidating Loans outstanding and to be outstanding to be forthwith due and payable, whereupon such Refunding and Consolidating Loans, all interest accrued and unpaid thereon and all other amounts payable hereunder shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by each of the Obligors.

In the event that the Agent shall make a declaration pursuant to clause (y) above, then, at any time thereafter, the Agent shall at the request, or may with the consent, of the Majority Creditors, (i) demand repayment of the Refunding and Consolidating Loans whereupon the same shall be immediately due and payable (or otherwise due and payable on the date specified by the Agent in such demand) together with all interest accrued and unpaid thereon and all other amounts payable by the Obligors and any of them hereunder or (ii) withdraw any such declaration whereupon such declaration shall cease to have effect.

SECTION 12.02. Transmittal of Notices of Default. If the Agent receives a Notice of Default from any Creditor, it shall promptly notify each other Creditor and the Paying Agent and the Guarantor of the contents thereof.

ARTICLE XIII

THE AGENT AND THE ICC MEMBERS

SECTION 13.01. Limited Appointment and Responsibilities. Each Creditor hereby appoints and authorizes the Agent to act as its agent under and in connection with this Agreement and the Guaranty. The Agent shall perform the mechanical and clerical functions in connection with the administration of this Agreement which are specifically set forth herein for the Agent, and in connection therewith shall have such powers as are reasonably incidental thereto. The responsibilities of the Agent are strictly limited to those specifically set forth in this Agreement, and no unstated functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Agent. Nothing herein shall constitute the Agent as an agent, trustee or fiduciary for any Obligor, the Guarantor or any Creditor, except as otherwise expressly provided in this Agreement. The Agent may perform all of its duties hereunder by or through agents, or its officers, employees or designees.

SECTION 13.02. Discretion and Protection. (a) No Duty to Exercise Discretion. As to any matters not expressly set forth herein as a function, responsibility or discretionary power of the Agent, the Agent shall not be required to exercise any discretion or take any action, except that the Agent may, in its sole discretion, act or refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Requisite Creditors, and such instructions shall be binding upon the Agent and all Creditors. If, with respect to proposed action to be taken by it, the Agent shall determine in good faith that the provisions of this Agreement relating to the functions, responsibilities or discretionary powers of the Agent are or may be ambiguous or inconsistent, the Agent may so notify the appropriate parties hereto (identifying the proposed action and the provisions that it considers are or may be ambiguous or inconsistent) and may decline either to perform such function or responsibility or to exercise such discretionary power unless it has received the written confirmation of the Requisite Creditors that the Requisite Creditors concur that the action proposed to be taken by the Agent is consistent with the terms of this Agreement or is otherwise appropriate. The Agent shall be fully protected in acting or refraining from acting upon the confirmation of the Requisite Creditors in this respect, and such confirmation shall be binding upon the Agent and Creditors. For the purposes of this Agreement, the term "Requisite Creditors" shall mean:

(i) in respect of matters affecting all Creditors, the Majority Creditors; and

(ii) in respect of matters affecting only a class of Creditors (as defined by a currency in which Refunding and Consolidating Loans may be outstanding, Interest Rate, or both, or other relevant criteria applicable to a class), Creditors of such class (A) at any time during the period before February 18, 1985, having more than 66-2/3% in aggregate principal amount for such class of the Refunding and Consolidating Loans outstanding and the Eligible Principal Payments then constituting Incorporated Debt and (B) at any time thereafter, having more than 66-2/3% in aggregate principal amount for such class of the Refunding and Consolidating Loans outstanding.

Nothing in this paragraph (a) shall be construed to permit any additional obligation to be imposed upon any Creditor or to alter the requirements of Section 14.01 hereof with respect to amendments or waivers of this Agreement.

(b) No Requirement to Take Certain Actions. The Agent shall not in any event be required to take any action which, in the judgment of the Agent, is contrary to this Agreement or applicable law or exposes the Agent to personal liability.

(c) Exercise of Discretion Not an Undertaking to Do So Again. If, in one or more instances, the Agent takes any action or assumes any responsibility not specifically delegated to it pursuant to the provisions hereof, neither the taking of such action nor the assumption of such responsibility shall be deemed to be an express or implied undertaking on the part of the Agent that it will take the same or similar action, or assume the same or similar responsibility, in any other instance.

(d) Reliance on Documents. Neither the Agent nor any ICC Member (as hereinafter defined) shall be responsible to any Creditor for any recitals, statements, representations, warranties or any other information contained in this Agreement, the Information Memorandum or any document delivered in connection herewith or therewith. The Agent shall have no responsibility to verify the accuracy or completeness of any information contained in any notice or certificate or other communication received by the Agent from any person. The Agent shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telegram, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties or by acting upon any representation or warranty of any Obligor or the Guarantor made in this Agreement, the Guaranty, any Refunding and Consolidating Loan Notice or in any document delivered pursuant to the provisions hereof. To the extent that the Agent is required by any provision hereof to take any action or prepare any report in reliance upon any information, report or document to be furnished by any other party hereto, the failure of any such other party to furnish such information, report or document shall excuse the Agent from taking such action or preparing such required report, provided that the Agent may, in its discretion (but only to the extent not inconsistent with the other provisions hereof), partially take such required action or partially prepare such required report on the basis of the information, reports or documents furnished to it.

(e) Reliance on Counsel. The Agent may consult with counsel (including counsel for any Obligor or the Guarantor) and other professional experts and consultants selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, experts or consultants.

(f) No Duty to Inquire. The Agent shall have no duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement or the Guaranty on the part of any Obligor or the Guarantor.

(g) No Responsibility for Validity of Documents. The Agent shall not be responsible to any Creditor for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, the

Guaranty, any Refunding and Consolidating Loan Notice or any other instrument or document furnished pursuant hereto.

(h) No Duty to Initiate Suits. The Agent shall not, in any event, (i) be required to initiate any suit, action or proceeding arising out of or in connection with this Agreement or the Guaranty or (ii) initiate any such suit, action or proceeding except at the request, or with the consent, of the Majority Creditors, unless in any such case, in the opinion of the Agent, it is adequately indemnified by the Creditors.

(i) ICC Members Have No Duties. The Creditors participating as members of, or observers to, the international coordinating committee of creditors of Yugoslav obligors and the Creditors acting as national coordinators for such committee or participating as members of any of the sub-committees (including the economics sub-committee) of such committee or of the national committees and the Creditors employing representatives of the Creditors referred to in paragraph (d) of Section 10.01 hereof, and the successors and assigns of such Creditors (each of such Creditors and its successors and assigns being herein called an "ICC Member") shall, in their capacities as such, have no duties or obligations whatsoever with respect to this Agreement or any other document or any matter related thereto. Except for the activities referred to in paragraph (d) of Section 10.01 hereof and to activities commenced by the Agent at the request of the Majority Creditors [and with the prior consent of the Paying Agent] , the activities of the ICC Members shall terminate on the Effective Date.

(j) Agent Not Deemed to Have Knowledge of Event of Default. The Agent shall not be deemed to have knowledge of the occurrence of any Event of Default (other than the non-payment of principal of or interest on a Refunding and Consolidating Loan) or any other event or condition which, with the giving of notice or the lapse of time or both, or upon a determination, would constitute an Event of Default, unless the Agent has received notice from a Creditor, an Obligor or the Guarantor specifying such Event of Default or such other event or condition (as the case may be) and stating that such notice is a "Notice of Default". The Agent shall, subject to the other provisions hereof, take such action with respect to such Event of Default or such other event or condition (as the case may be) as shall be directed by the Majority Creditors, provided that, unless and until the Agent shall have received such directions, the Agent may refrain from taking action with respect to such Event of Default or such other event or condition (as the case may be).

SECTION 13.03. Limited Liability. Neither the Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them in connection with this Agreement or the Guaranty (including, without limitation, any action taken or omitted to be taken before the date hereof by the Agent in preparation for action hereunder), except for its or their own gross negligence or wilful misconduct.

SECTION 13.04. Indemnification by Creditors. (a) Expenses. The Creditors agree to indemnify the Agent, the Administrative Coordinator and each ICC Member (to the extent not reimbursed by the Obligors or the Guarantor) for their respective ratable shares of any and all liabilities, obligations, losses, damages, penalties, judgments, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on or incurred by the Agent, the Administrative Coordinator or such ICC Member in any way relating to or arising out of this Agreement or the Guaranty or any action taken or omitted to be taken by the Agent under this Agreement or the Guaranty (including, without limitation, any action taken or omitted to be taken prior to the date hereof by the Agent, the Administrative Coordinator or such ICC Member in connection with this Agreement), provided that no Creditor shall be liable for any portion of any such amount resulting from the gross negligence or wilful misconduct of the Agent, the Administrative Coordinator or such ICC Member. Without limiting the generality of the foregoing, each Creditor agrees that it will, subject to the limitations set forth in the proviso to the immediately preceding sentence, upon demand, pay or reimburse the Agent, the Administrative Coordinator and any ICC Member (to the extent that the Agent, the Administrative Coordinator or such ICC Member (as the case may be) is not reimbursed by the Obligors or the Guarantor) for its ratable share of the agency fee and any out-of-pocket expenses (including fees of special New York, English and other counsel to the Agent and of the Administrative Coordinator) incurred in connection with the negotiation, preparation, printing, signing and administration of this Agreement or the Guaranty or any amendment hereof or thereof or waiver or consent hereunder or thereunder or in connection with investigating any alleged Event of Default or preserving any rights of the Creditors or the Agent hereunder or thereunder or obtaining legal advice in respect of the rights and responsibilities of the Creditors, the ICC Members or the Agent hereunder or thereunder or obtaining legal advice in respect of the rights and responsibilities of the Creditors, the ICC Members or the Agent hereunder or thereunder. Notwithstanding the foregoing, [(i) expenses of the Agent and ICC Members incurred prior to the Effective Date shall be subject to reimbursement under this Section 13.04 only to the extent that such expenses are subject to reimbursement pursuant to Section 14.05 hereof and (ii)] expenses of the ICC Members incurred after the Effective Date shall be subject to reimbursement under this Section 13.04 only to the extent that such expenses are incurred in connection with activities referred to in paragraph (d) of Section 10.01 hereof or otherwise commenced by the Agent on its own initiative or in response to a request by the Majority Creditors.

(b) Calculation of Ratable Shares. For purposes of paragraph (a) of this Section 13.04, the ratable share of each Creditor shall be determined (i) during the period before February 18, 1985, by reference to the proportion held by such Creditor in the aggregate amount of the Refunding and Consolidating Loans outstanding and the Eligible Principal Payments constituting Incorporated Debt and (ii) thereafter, by reference to the proportion held by such Creditor in the Refunding and Consolidating Loans outstanding.

SECTION 13.05. Successor Agent. The Agent may resign at any time by giving written notice thereof to the Creditors and the Paying Agent and may be removed at any time, with or without cause, by the Majority Creditors provided that in no event shall any such resignation be effective until a successor Agent is appointed and agrees to act as such hereunder. Upon any such notice of resignation or removal, the Majority Creditors shall have the right to appoint a successor Agent, and the Majority Creditors shall endeavor in good faith so to appoint a successor Agent. If no successor Agent shall have been so appointed by the Majority Creditors and shall have accepted such appointment within 60 days after such notice of resignation or removal, then the retiring Agent may appoint a successor Agent, which shall have offices in New York City and London and shall be a commercial bank having a combined capital and surplus of at least U.S. $1,000,000,000 or its equivalent in another currency or an Affiliate of any such commercial bank. Upon the acceptance by a successor Agent of any appointment as Agent hereunder, such successor Agent shall succeed to, and become vested with, all the rights, powers, privileges and duties of the retiring Agent, and upon (but only upon) such acceptance, the retiring Agent shall be discharged from further responsibilities under this Agreement. The provisions of this Article XIII shall continue to inure to the benefit of the retiring Agent as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

SECTION 13.06. Rights as a Creditor. With respect to Refunding and Consolidating Loans held by it, the Agent and each ICC Member shall have the same rights and powers hereunder as any other Creditor and may exercise the same as though it were not the Agent or an ICC Member (as the case may be) and the term "Creditor" shall, unless the context otherwise indicates, include the Agent and each ICC Member in its individual capacity. The Agent and each ICC Member (without having to account therefor to any Creditor) may accept deposits from, lend money to and generally engage in any kind of banking, trust or other business with any Obligor, the Guarantor, any Agency or other Yugoslav Person as if it were not the Agent or an ICC Member, and may accept fees and other consideration for services in connection with this Agreement or otherwise without having to account for the same hereunder to any Creditor so long as such action is not otherwise in violation of any provisions of this Agreement.

ARTICLE XIV

MISCELLANEOUS

SECTION 14.01. Amendments, Etc. No amendment or waiver of any provision of this Agreement or the Guaranty, nor consent to any departure by any Obligor or the Guarantor therefrom, shall in any event be effective unless the same shall be in writing and signed or consented to by the Majority Creditors (including, without limitation, by exchange of telexes), and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given, provided that no amendment, waiver or consent shall, unless in writing and signed or consented to by the Extra-majority Creditors (including, without limitation, by exchange of telexes), (a) subject the Creditors to any additional obligations, (b) reduce the principal of or interest on the Refunding and Consolidating Loans or any facility fees or other amounts payable hereunder, (c) postpone any date fixed for any payment in respect of the principal of, or interest on, the Refunding and Consolidating Loans or any facility fees or other amounts payable hereunder, (d) change the percentage of the Creditors whose consent, determination or request shall be required for the taking any action hereunder, (e) amend or waive any provision of Section 15.03 or 15.06 hereof, (f) amend or waive any other provision of this Agreement which expressly requires action by the Extra-majority Creditors or (g) change this Section 14.01 or Article XIII hereof, provided that no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Creditors required hereinabove to take such action (including, without limitation, by exchange of telexes), affect the rights or duties of the Agent under this Agreement, and provided, further, that no amendment, waiver or consent shall provide or allow for any Creditors who do not concur in such amendment, waiver or consent to (i) receive treatment adversely different from that received by those Creditors who do or (ii) reduce the principal of any Refunding and Consolidating Loan of any such Creditor or shall, unless in writing and signed or consented to by all the Creditors, provide or allow for any change in this proviso. Each Creditor agrees with each other Creditor that it will not execute and deliver any amendment, waiver or consent under the Guaranty that provides or allows for the release of any of the obligations of the Guarantor under Section 1 of the Guaranty, unless its execution and delivery of such amendment, waiver or consent is subject to the condition that, prior to such amendment, waiver or consent becoming effective, no other Creditor shall have given the Agent written notice of its objection to such release.

SECTION 14.02 Notices, Etc. All notices and other communications provided for hereunder shall, unless otherwise stated herein, be in writing (including by telex, telegram or cable) and mailed, sent or delivered (a) as to each of the Obligors, the Paying Agent and the Agent, at its address set forth under its name on the signature pages hereof, (b) as to each of the Creditors, at its address or addresses set forth in the spaces included for the specification of Lending Office in the respective Refunding and Consolidating Loan Notices executed by it and received by the Agent and the Paying Agent and (c) as to each party, at such other address as shall be designated by such party from time to time in a notice to the Obligors, the Paying Agent and the Agent, provided that such other address shall have been appropriately notified to the Agent at least 10

Working Days prior thereto. All such notices and communications shall be effective, in the case of written notice by letter, when delivered (except as otherwise provided in Section 14.08 hereof), and, in the case of notice by telegram or cable, when delivered to the telegraph company addressed as set forth above and, in the case of notice by telex, when sent and the appropriate answerback is received, except that notices and communications to the Agent shall not be effective until received by the Agent (and the Agent agrees to acknowledge receipt of each such notice or communication receipt of which it is requested to acknowledge).

SECTION 14.03. No Waiver; Cumulative Remedies. No failure on the part of the Agent or any Creditor to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The rights and remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 14.04. The Administrative Coordinator. Each of the Obligors, the Agent and the Creditors hereby confirms the appointment of the Administrative Coordinator to perform, with the cooperation of the Social Accounting Service of Yugoslavia, the functions set out in Schedule 1 hereto, and confirms that the Administrative Coordinator shall perform such duties and tasks on behalf of the Obligors, the Agent and the Creditors and shall also undertake from time to time matters incidental thereto.

SECTION 14.05. Costs and Expenses. (a) Expenses. NBY, in its capacity as the Paying Agent, agrees, on behalf of the Obligors jointly and severally, to pay on demand (i) all reasonable costs and expenses (excluding fees and disbursements of counsel) of the ICC Members described in reasonable detail in monthly statements furnished to the Paying Agent, and incurred in the course of the performance by them of their duties as members thereof (including, without limitation, expenses of ICC Members incurred in connection with the activities of the economic sub-committee referred to in paragraph (i) of Section 13.02 hereof), provided that in the case of expenses related to the attendance at meetings of the ICC occurring after January 19, 1984, such expenses are limited to expenses incurred by not more than two representatives and are not duplicative of expenses submitted for payment under the 1983 Financing Agreement, (ii) all reasonable costs and expenses of the Agent described in detail to the Paying Agent, provided that such costs and expenses are not incurred by the Agent in respect of the period after the execution and delivery of this Agreement, which costs and expenses are to be covered by the agency fee (except to the extent that such costs and expenses (A) may be extraordinary or may relate to the copying of documents furnished to the Agent pursuant to Section 10.01 hereof for distribution to the Creditors and (B) are incurred with the prior consent of the Paying Agent, which consent shall not be unreasonably withheld), (iii) the fees and out-of-pocket expenses of the Administrative Coordinator (as determined pursuant to a separate agreement between the Guarantor and the Administrative Coordinator), (iv) the reasonable fees and expenses specified in detail to the Paying Agent of Messrs. Simpson Thacher & Bartlett, as special New York counsel to the Agent and the Creditors, Messrs. Coward Chance, as special English counsel to the Agent and the Creditors, and special Yugoslav counsel to the Agent and the Creditors, (v) all reasonable costs and expenses incurred in connection with the printing, reproduction and delivery of this Agreement and documented by appropriate invoices furnished to the Paying Agent, provided that such costs and expenses are incurred with the prior consent of the Paying Agent, (vi) all losses, costs and expenses (including fees and disbursements of counsel), if any, of the Agent and the Creditors in connection with the preservation of any rights of the Agent or the Creditors under, or the enforcement of, or legal advice in respect of the rights and responsibilities of the Agent or the Creditors under, this Agreement and the Guaranty and the documents delivered hereunder and thereunder (including, without limitation, losses, costs and expenses sustained by each Creditor as a result of any failure by any Obligor or the Guarantor to perform or observe its obligations contained herein or therein) which are specified in detail to the Paying Agent, and (vii) any and all liabilities, obligations, losses, damages, penalties, judgments, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on or incurred by the Agent or any ICC Member in any way relating to or arising out of this Agreement or the Guaranty or, in the case of the Agent, any action taken or omitted by the Agent hereunder or thereunder or in preparing to act as Agent hereunder, except for any losses, costs and expenses which are subject to clauses (i), (ii), (iii), (iv), (v) or (vi) of this paragraph (a) and for any such liabilities, obligations, losses, damages, penalties, judgments, costs, expenses or disbursements caused to be incurred by the gross negligence or wilful misconduct of the Agent or any ICC Member (as the case may be). The Agent will promptly transmit to the Paying Agent all invoices received by it for each of the foregoing. Notwithstanding the foregoing, expenses of the ICC Members incurred after the Effective Date of this Agreement shall be reimbursable only to the extent that such expenses are incurred in connection with activities referred to in paragraph (d) of Section 10.01 hereof or otherwise commenced by the Agent on its own initiative or in response to a request by the Majority Creditors, in either case with the prior consent of the Paying Agent. The costs and expenses referred to in clauses (i) through (v) of this subsection (a) of Section 14.05 will be payable upon submission to, and following a reasonable period for review thereof by, the Paying Agent, and each such submission shall be made prior to February 18, 1985.

(b) Losses Due to Payment on Date Other than Relevant Payment Date. If, due to payments made pursuant to Section 14.03 or Article XI hereof or due to acceleration pursuant to Section 12.01 hereof or due to any other reason, any Creditor receives a payment of the principal of or interest on any Refunding and Consolidating Loan other than on the relevant Payment Date, the Obligors shall, upon demand by such Creditor (with a copy of such demand to the Agent), pay to the Agent for the account of such Creditor any amounts required to compensate such Creditor in the relevant currency for any additional losses, costs or expenses which it may reasonably have incurred as a result of such payment other than on the Payment Date therefor, including, without limitation, any loss, cost or expense incurred by reason of the liquidation or re-employment of deposits or other funds acquired by any Creditor to fund or maintain such Refunding and Consolidating Loan, but excluding any loss of anticipated profit.

(c) Liabilities of Obligors. Notwithstanding any provision hereof to the contrary, the obligations and liabilities of the Obligors under this Section 14.05 shall become effective and binding upon the Obligors when copies of this Agreement have been executed and delivered to the Agent by each Obligor and shall survive termination of this Agreement. Nothing in this Section 14.05 shall relieve any Obligor of any liability under this Agreement to any party hereto. If any Creditor pays any amount which any Obligor is obligated to pay to the Agent or any ICC Member hereunder, such Creditor shall be subrogated to the rights of the Agent or such ICC Member (as the case may be) against such Obligor in respect of such amount.

SECTION 14.06. Right of Set-Off (a) Authorization to Set Off. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 12.01 hereof to authorize the Agent to declare the Refunding and Consolidating Loans outstanding and to be outstanding to be forthwith due and payable, each Creditor is hereby authorized, to the fullest extent permitted by law, to set off, appropriate and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Creditor to or for the credit or the account of any Obligor against any and all of the obligations of any Obligor now or hereafter existing under this Agreement, irrespective of whether or not such Creditor shall have made any demand under this Agreement and although such deposits, indebtedness and obligations may be unmatured. Each Creditor agrees promptly to notify the relevant Obligor after any such set-off and application made by such Creditor, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Creditor under this paragraph (a) are in addition to other rights and remedies (including, without limitation, other rights of set-off) which such Creditor may have.

(b) Authorization to Purchase Currencies. Each Creditor is hereby authorized to purchase with moneys on deposit in any account referred to in paragraph (a) of this Section 14.06, such currencies as may be necessary to effect the application referred to in said paragraph (a).

SECTION 14.07. Judgment. (a) Conversion of Currencies. If, for the purpose of obtaining judgment in any court, it is necessary to convert a sum due hereunder in one currency into another currency, the parties hereto agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures the Agent could purchase the first currency with such other currency in the city in which is located the Payment Account for the first currency on the Banking Day immediately preceding the day on which final judgment is given.

(b) Discharge of Obligations. The obligation of the Obligors in respect of any sum due to any Creditor or the Agent hereunder shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than that in which such sum is denominated in accordance with the applicable provisions of this Agreement (the "Agreement Currency"), be discharged only to the extent that on the Banking Day following receipt by such Creditor or the Agent (as the case may be) of any sum adjudged to be so due in the Judgment Currency such Creditor or the Agent (as the case may be) may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency; if the amount of the Agreement Currency so purchased is less than the sum originally due to such Creditor or the Agent (as the case may be) in the Agreement Currency, the Obligors agree, as a separate obligation and notwithstanding any such judgment, to indemnify such Creditor or the Agent (as the case may be) against such loss, and if the amount of the Agreement Currency so purchased exceeds the sum originally due to any Creditor or the Agent (as the case may be), such Creditor or the Agent (as the case may be) agrees to remit to the Paying Agent such excess. The indemnities of the Obligors under this Section 14.07 shall survive the termination of this Agreement.

SECTION 14.08. Jurisdiction; Appointments; Waivers. (a) Consent to Jurisdiction. Each of the Obligors and the Paying Agent hereby irrevocably and unconditionally submits, for itself and its property, to the non-exclusive jurisdiction of (i) any New York State court or Federal court of the United States of America sitting in The City of New York, (ii) the High Court of Justice in London, England, (iii) any competent Yugoslav court sitting in Belgrade, Yugoslavia and (iv) any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for the recognition or enforcement of any judgment, and each of the Obligors and the Paying Agent hereby irrevocably and unconditionally agrees that all claims in respect of such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court, in the High Court of Justice in London or in the competent Yugoslav court in Belgrade. Each of the Obligors and the Paying Agent agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(b) Waiver of Immunity. To the extent that any of the Obligors or the Paying Agent has or hereafter may acquire or have attributed to it any immunity (sovereign or otherwise) from suit, the jurisdiction of any court or from set-off or any legal process (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment, arrest of property or otherwise) with respect to itself or its property, it hereby irrevocably and unconditionally agrees not to plead or claim, and waives, such immunity in respect of its obligations hereunder and, without limiting the generality of the foregoing, (i) agrees that such immunity is hereby waived to the fullest extent permitted under the laws applicable thereto in any jurisdiction in which an action may be brought and that the waivers set forth in this paragraph (b) are intended to be unconditional and irrevocable for purposes of any such laws and not subject to withdrawal and (ii) consents generally for the purposes of the laws in any such jurisdiction to the giving of any relief or the issue of any process.

(c) Appointment of Process Agents. Each of the Obligors and the Paying Agent hereby irrevocably and unconditionally appoints (i) CT Corporation System (the "New York Process Agent"), with an office on the date hereof at 1633 Broadway, New York, New York 10019, United States of America, as its agent to receive, on behalf of it and its property, service of copies of the summons and complaint and any other process which may be served in any action or proceeding referred to in paragraph (a) of this Section 14.08 in any New York State or Federal court referred to therein and (ii) The Law Debenture Corporation p.l.c. (the "London Process Agent"), with an office on the date hereof at Estates House, 66 Gresham Street, London EC2V 7HX, England, as its agent to receive, on behalf of it and its property, service of copies of the summons and complaint and any other process which may be served in any such action or proceeding in the High Court of Justice in London, and agrees promptly to appoint a successor New York Process Agent or London Process Agent in The City of New York or London, England (as the case may be), which successor New York Process Agent or London Process Agent shall accept such appointment in form and substance satisfactory to the Agent, prior to the termination for any reason of the appointment of the then New York Process Agent or London Process Agent (as the case may be). Such service shall be made on any of the Obligors or the Paying Agent by delivering a copy of such process to it in care of the New York Process Agent or the London Process Agent (as the case may be) at the address thereof and by depositing a copy of such process in the mails, addressed to it at its address specified in Section 14.02 hereof. Each of the Obligors and the Paying Agent also hereby irrevocably agrees as an alternative method of service, service by registered or certified air mail to each or all of them at their respective addresses referred to in Section 14.02. Each of the Obligors and the Paying Agent also hereby irrevocably and unconditionally waives any claim of error arising out of service of process by any method provided for herein or that such service was not effectively made. Each of the Obligors and the Paying Agent agrees that the failure of the New York Process Agent or the London Process Agent (as the case may be) to give any notice of any such service of process to it shall not impair or affect the validity of such service or any judgment based thereon.

(d) Submission Not Exclusive. Nothing in this Section 14.08 shall affect any right that any Creditor or the Agent may otherwise have to bring any action or proceeding relating to this Agreement against any of the Obligors or the Paying Agent or their property in the courts of any jurisdiction and, in connection therewith, to serve legal process in any other manner permitted by law.

(e) Forum. Each of the Obligors and the Paying Agent hereby irrevocably and unconditionally waives, to the fullest extent it may effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any New York State or Federal court. Each of the Obligors and the Paying Agent hereby irrevocably waives, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

SECTION 14.09. Binding Effect; Partial Invalidity; Survival. When this Agreement shall have become effective pursuant to Section 7.02 hereof, it shall be binding on and inure to the benefit of the parties hereto and, subject to Section 14.10, their respective successors and permitted assigns. If one or more provisions contained in this Agreement shall be void, invalid, illegal or unenforceable in any respect in any jurisdiction with respect to any party, such voidness, invalidity, illegality or unenforceability in such jurisdiction or with respect to such party shall not, to the fullest extent permitted by applicable law, invalidate or render illegal or unenforceable such provision in any other jurisdiction or with respect to any other party. To the fullest extent it may effectively do so under applicable law, each of the parties hereto waives any provision of law which renders any provision hereof invalid or illegal in any respect. Without prejudice to the survival of any other agreement of the Obligors or the Paying Agent hereunder, the agreements of the Obligors contained in Sections 5.09, 5.10, 13.04 and 14.05 hereof shall survive the payment in full of the Refunding and Consolidating Loans and interest thereon.

SECTION 14.10. Assignments. (a) Assignment of Rights By Creditors. Any Creditor may at any time assign its rights and obligations under this Agreement as a whole to another Creditor or financial institution (an "Assignee"), provided that:

(i) such Creditor shall not be relieved of any obligation so assigned unless the Assignee is an Affiliate of such Creditor or such assignment is made with the prior written consent of the Paying Agent (which shall not be unreasonably withheld and shall be deemed to have been given if the Paying Agent fails to reply to a request for its consent within 15 Working Days after its receipt thereof);

(ii) the Obligors, the Paying Agent and the Agent may continue (A) to treat such Creditor as a Creditor named herein for all purposes hereof (including payments) until the Paying Agent and the Agent shall have received written notice of such assignment signed by such Creditor and (B) to treat such Creditor as a Creditor named herein for all purposes hereof (other than payments) until the Paying Agent and the Agent shall have received an agreement (in form satisfactory to the Agent) signed by the Assignee to the effect that the Assignee is bound by this Agreement as fully and to the same extent as if originally named as a Creditor herein;

(iii) upon compliance with clause (A) of subparagraph (ii) of this paragraph (a), all payments in respect of the rights assigned shall be made to the relevant Assignee and upon compliance with clause (B) of said subparagraph (ii), the Assignee shall become a "Creditor" for all purposes hereof with respect to the rights and obligations assigned to it and the rights and, upon compliance with subparagraph (i) of this paragraph (a), the obligations of the assigning Creditor shall terminate; and

(iv) unless the Paying Agent shall have consented in writing to such assignment (which approval shall be deemed to have been given if the Paying Agent fails to reply to a request for its consent within 15 Working Days after its receipt thereof), immediately after any such assignment, the Assignee thereunder shall not have any greater right pursuant to Sections 5.09 and 5.10 hereof than the assignor thereunder immediately before such assignment.

Nothing in this Section 14.10 shall limit or restrict the effectiveness of any assignment of any Eligible Principal Payment pursuant to Section 2.05 hereof or prevent any Creditor from granting participations in its rights under this Agreement.

(b) Change of Lending Office. Any Creditor may at any time change its Lending Office in respect of any of its Refunding and Consolidating Loans by giving notice of such change to the Agent and the Paying Agent, provided that unless the Paying Agent shall have consented in writing to such change (which consent shall be deemed to have been given if the Paying Agent fails to reply to a request for its consent within 15 Working Days after its receipt thereof), after any such change, such Creditor shall not have any greater rights in respect of such Refunding and Consolidating Loan (as the case may be) pursuant to Sections 5.09 and 5.10 hereof than it had in respect thereof immediately before such change.

(c) Assignment of Rights By Obligors, Paying Agent and Guarantor. None of the Obligors, the Paying Agent and the Guarantor shall assign any of its rights or obligations under this Agreement.

(d) Definitions. As used in this Section 14.10, "assign" means assign or otherwise transfer; and "rights" means any rights or other benefits.

SECTION 14.11. Addition of Creditors. Any person may at any time before February , 1985 become a party to this Agreement as a "Creditor" (other than by taking an assignment pursuant to the provisions of Section 14.10 hereof) by executing and delivering to the Agent, in not fewer than five counterparts, a supplement to this Agreement in substantially the form of Exhibit Z hereto.

SECTION 14.12. Governing Law. This Agreement and the rights and obligations of the parties hereunder shall be governed by, and construed and interpreted in accordance with, the law of the State of New York, United States of America.

SECTION 14.13. Obligations of the Creditors Several. The obligations of the Creditors hereunder are several. The failure of any Creditor to carry out its obligations hereunder shall not relieve any other Creditor, the Agent, any Obligor or the Paying Agent of any of its obligations hereunder, nor shall any Creditor or the Agent be responsible for the obligations of, or any action taken or omitted by, any other Creditor. The amounts payable at any time hereunder to each Creditor shall be a separate and independent debt and each Creditor shall be entitled to protect and enforce its rights arising out of this Agreement, and it shall not be necessary for any other Creditor to be joined as an additional party in any proceedings for such purpose, but each Creditor agrees to give the Agent prior notice of the commencement of any such proceeding, and the Agent will promptly notify each other Creditor thereof.

SECTION 14.14. Use of English Language. This Agreement has been negotiated and executed in the English language. All certificates, reports, notices and other documents and communications given or delivered pursuant to this Agreement shall be in the English language, or accompanied by a certified English translation thereof.

SECTION 14.15. Computations of Currencies. (a) General Calculations. For purposes of making calculations contemplated hereunder for any purpose other than the purposes referred to in paragraphs (b), (c) and (d) of this Section 14.15 (including, without limitation, for the purpose of determining any percentage or proportion of the aggregate principal amount of the Refunding and Consolidating Loans or Eligible Principal Payments constituting Incorporated Debt or otherwise or any *pro rata* or ratable shares to be determined in proportion to such aggregate principal amount), Refunding and Consolidating Loans and Eligible Principal Payments in any currency other than U.S. Dollars shall be converted into U.S. Dollars at the exchange rate equal to the spot rate (as quoted by the Agent) for the purchase in the London foreign exchange market of U.S. Dollars with such other currency at approximately 11:00 A.M. (London time) on the first Working Day of the calendar quarter during which any such calculation shall be made.

>

(b) Calculations of Refunding and Consolidating Loans. For the purpose of calculating any Refunding and Consolidating Loan made on any Refunding and Consolidating Loan Date in a currency other than the currency in which the related Eligible Principal Payment was outstanding, the exchange rate to be used shall be the average (rounded upward, if necessary, to the nearest whole multiple of 1/100 of 1%) of the spot market rates quoted to the Agent by each of the Exchange Reference Banks for the currency in which such Refunding and Consolidating Loan is to be made as the rate at which such Exchange Reference Bank is offered for purchase in the interbank market in the city in which the Payment Account for the currency of such Refunding and Consolidating Loan is located at approximately 11:00 A.M. (local time in such city) on the day two Business Days prior to such Refunding and Consolidating Loan for settlement on such Refunding and Consolidating Loan Date [$1,000,000] (or its equivalent) of the currency of such Refunding and Consolidating Loan with the currency in which the Eligible Principal Payment is denominated.

(c) Calculations of Facility Fees. For the purpose of calculating the amount of the facility fee payable to any Creditor in respect of Eligible Principal Payments constituting Incorporated Debt on account of a Refunding and Consolidating Loan to be made by such Creditor denominated in a currency other than U.S. Dollars, the exchange rate to be used shall be the exchange rate which would be used to convert on the relevant Refunding and Consolidating Loan Date an Eligible Principal Payment denominated in the currency [in which the Eligible Principal Payment related to such Refunding and Consolidating Loan is denominated] [in which such Refunding and Consolidating Loan is to be made] to a Refunding and Consolidating Loan denominated in U.S. Dollars.

(d) Calculations for Purposes of Sections 5.03 and 5.06. For the purpose of making any calculations under Sections 5.03 and 5.06 hereof for the conversion of one currency into another currency, the exchange rate to be used shall be the spot rate (as quoted by the Agent) for the purchase in the London foreign exchange market of such other currency with such currency at approximately 11:00 A.M. (London time) on the date on which the applicable currency exchange is made or on the relevant Calculation Date (as the case may be).

SECTION 14.16. Escrow Arrangements for Arrears and Interest Adjustment Amounts. Each of the Obligors, the Paying Agent and the Creditors hereby agrees that the Agent shall hold all funds in each currency deposited with it in escrow as contemplated by paragraph (a) of Section 3.10 hereof and paragraph (b) of Sections 7.01 and 7.03 hereof and the proviso to Section 7.02 hereof in a special purpose bank account maintained by the Agent (which may be a special purpose sub-account maintained by the Agent in accordance with its customary controls within its general depository account) in the depository institution in which the Payment Account for such currency is maintained or, if such currency is other than a Permitted Currency, in such other depository institution as selected by the Agent in its sole discretion. Funds deposited with the Agent in escrow shall be accepted and held on the following terms and conditions:

(a) funds shall be accepted for deposit in escrow in respect of an Arrear or an Interest Adjustment Amount (as the case may be) only when there is a dispute as to amount of such Arrear or Interest Adjustment Amount. Funds deposited shall be equal to the amount claimed by the Creditor to be the amount of such Arrear or Interest Adjustment Amount and shall be accompanied by a certificate or telex exchange from both such Creditor and the relevant Yugoslav Obligor or the Paying Agent (as the case may be) identifying such Arrear or Interest Adjustment Amount and the amount claimed by such Creditor to be due;

(b) funds on deposit in escrow shall, to the extent practicable in the sole discretion of the Agent, be invested with prime banks in the local interbank call market (or any similar market) and the earnings on such funds shall be retained as additional amounts in escrow. The Agent shall not be liable or responsible for any investment losses;

(c) funds deposited in escrow in respect of an Arrear or Interest Adjustment Amount (as the case may be) shall be released from escrow in accordance with the following:

(i) such funds shall be so released upon receipt by the Agent of a certificate or telex exchange from both the relevant Creditor and the relevant Yugoslav Obligor or the Paying Agent (as the case may be) identifying such Arrear or

Interest Adjustment Amount and specifying the amount (if any) mutually agreed upon as the amount to be paid to such Creditor in satisfaction of its claim and specifying the transfer instructions for such amount. The amount specified as the amount to be transferred to such Creditor in satisfaction of its claim shall be based upon the amount claimed as of the date on which the deposit into escrow was made and shall not include any amount representing interest on or a penalty in respect of such amount due as a result of the failure to make payment of such claim on such date. The actual amount transferred to such Creditor shall be equal to the amount specified as the amount to be paid to it in satisfaction of its claim, together with a ratable portion of the earnings on the funds deposited in escrow in respect of such claim. The remainder of the funds deposited in escrow in respect of such claim and of the earnings thereon shall be transferred to such Yugoslav Obligor or the Paying Agent (as the case may be) in accordance with its transfer instructions; or

(ii) such funds shall be so released upon the entry by a court of a final judgment binding upon both the relevant Creditor and the relevant Yugoslav Obligor or the Paying Agent (as the case may be) with respect to the dispute regarding such Arrear or Interest Adjustment Amount and the receipt by the Agent of actual knowledge of such final judgment. The amount (if any) to be transferred to such Creditor pursuant to such final judgment shall be the amount adjudged to be the amount owing to such Creditor, together (if such judgement does not include interest through the date of such transfer) with a ratable portion of the earnings on the funds deposited in escrow in respect of such dispute. Such transfer shall be made in accordance with transfer instructions received by the Agent from such Creditor or (in the absence of such instructions) as the Agent may deem appropriate. The remainder of the funds deposited in escrow in respect of such dispute and earnings thereon shall be transferred to such Yugoslav Obligor or the Paying Agent (as the case may be) in accordance with its transfer instructions.

SECTION 14.17. <u>Execution in Counterparts</u>. This Agreement and any amendment or supplement hereto, any waiver hereof or any consent hereunder may be executed in any number of counterparts and by different parties on separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. A counterpart of this Agreement executed by each Obligor, the Paying Agent and the Agent shall be delivered to each Creditor. One complete set of counterparts of this Agreement and of each amendment or supplement hereto shall be delivered to the Paying Agent, one complete set of such counterparts shall be delivered to the Guarantor and two complete sets of such counterparts shall be delivered to the Agent.

SECTION 14.18. <u>Final Day for Effective Date</u>. If, for any reason, the Effective Date does not occur on or before the day 60 days after the date of this Agreement, the agreements and obligations of any party who has executed and delivered this Agreement on or before such day shall terminate and such party shall not be bound hereby.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officials, officers or agents thereunto duly authorized, as of the date first above written.

<u>OBLIGORS</u>

THE NATIONAL BANK OF YUGOSLAVIA

By______________________________
Title:

Address: 11000 Beograd
Bulevar Revolucije 15
Yugoslavia
Telex No.: 11574
Attention: [General Manager
International
Credit Relations]

DUBROVACKA BANKA-OSNOVNA
BANKA DUBROVNIK

By______________________________
Title:

Address: 50000 Dubrovnik
Put Republike 32
Yugoslavia
Telex No.: 27540
Attention: [Vladimir R. Strazicic]
[Manager,
International Division]

ISTARSKA OSNOVNA BANKA PULA

By______________________________
Title:

Address: 52000 Pula
Trg Republike 2
Yugoslavia
Telex No.: 25241
Attention: [Aton Racan]
[General Manager]

JUGOBANKA UDRUZENA BANKA

By________________________________
Title:

By________________________________
Title:

Address: 11000 Beograd
7. Jula 19-21
Yugoslavia
Telex No.: 11610
Attention: [Milomir Ilic]
[Assistant General
Manager, International]

KOMERCIJALNA BANKA VUKOVAR
OSNOVNA BANKA VUKOVAR

By________________________________
Title:

Address: 56230 Vukovar
Marsala Tita 1
Yugoslavia
Telex No.: 28261
Attention: [Milan Maksimovic]
[Director]

INVESTICIONA BANKA TITOGRAD-
UDRUZENA BANKA

By______________________________
Title:

Address: 81000 Titograd
Bulevar Revolucije 1
Yugoslavia
Telex No.: 61118
Attention: [Toma Jorovic]
[Manager of the
Foreign Loans
and Special
Arrangements Division]

KREDITNA BANKA MARIBOR

By___________________________
Title:

Address: 62000 Maribor
Vita Kraigherja 4
Yugoslavia
Telex No.: 33177
Attention: [Franc Hvalec]
[President of the
Management Board]

LJUBLJANSKA BANKA-ZDRUZENA
BANKA LJUBLJANA

By______________________________
Title:

Address: 61000 Ljubljana
Trg Revolucije 2
Yugoslavia
Telex No.: 31256
Attention: [Gregor Dolenc]
[General Manager,
International]

OSNOVNA BANKA KOMERCIJALNA
BANKA ZADAR

By______________________________
Title:

Address: 57000 Zadar
Trg 27 Marta 3
Yugoslavia
Telex No.: 27141
Attention: [Gregor Stipic]
[General Manager]

PRIVREDNA BANKA SARAJEVO-
UDRUZENA BANKA

By______________________________
Title:

Address: 71000 Sarajevo
Obala Vojvode Stepe 19
Yugoslavia
Telex No.: 41289
Attention: [Midhat Mulic]
[Assistant General
Manager]

PRIVREDNA BANKA ZAGREB

By______________________________
Title:

Address: 41000 Zagreb
Rackoga 6
Yugoslavia
Telex No.: 21120
Attention: [Branko Gavrilovic]
[Manager,
Foreign Exchange
Department]

RIJECKA BANKA-OSNOVNA BANKA

By______________________________
Title:

Address: 51000 Rijeka
Trg P. Togliatti 3A
Yugoslavia
Telex No.: 24143
Attention: [Vladimir Soic]
[Assistant General
Manager of
Foreign Credits and
Guaranties]

SLAVONSKA BANKA OSIJEK

By ______________________________
Title:

Address: 54000 Osijek
Bulevar JNA 29
Yugoslavia
Telex No.: 28235
Attention: [Kresimir Fekete]
[Divisional Manager]

SPILTSKA BANKA SPLIT

By______________________________
Title:

Address: 58000 Split
Rudjera Boskovica 16
Yugoslavia
Telex No.: 26161
Attention: [Ivo Lisica]
[Adviser]

STOPANSKA BANKA-ZDRUZENA BANKA

By__________________________________
Title:

Address: 91000 Skopje
11 Oktomvri 7
Yugoslavia
Telex No.: 51140
Attention: [Pavle Stevanoski]
[Director, International
Division]

UDRUZENA BEOGRADSKA BANKA

By______________________________
Title:

Address:	11000 Beograd Knez Mihajlova 2-4 Yugoslavia
Telex No.:	11712
Attention:	[Izudin Mulaganovic] [General Manager, International] [Garrilo Djedovic] [Assistant General Manager, International]

UDRUZENA KOSOVSKA BANKA

By______________________________
Title:

Address:	38000 Pristina Marsala Tita 38 Yugoslavia
Telex No.:	18322
Attention:	[Ljirije Osagi] [Chief of Guarantee and Loan Department]

VOJVODJANSKA BANKA-
UDRUZENA BANKA

BY_______________________________
Title:

Address: 21000 Novi Sad
Bulevar Marsala Tita 14
Yugoslavia
Telex No.: 14129
Attention: [Slobodanka Berisaljevic]
[Vice President of
Management Board]

ZAGREBACKA BANKA ZAGREB

By_______________________________
Title:

Address: 41000 Zagreb
Paromlinska BB
Yugoslavia
Telex No.: 21463
Attention: [Marija Trbovic]
[Divisional Manager]

Paying Agent

THE NATIONAL BANK OF YUGOSLAVIA,
as Paying Agent

By______________________________
Title:

Address: 11000 Beograd
Bulevar Revolucije 15
Yugoslavia
Telex No.: 11574
Attention: General Manager,
International
Credit Relations

AGENT

MANUFACTURERS HANOVER LIMITED,
as Agent

By______________________________
Title:

Address: 8 Princes Street
London EC2P 2EN
England
Telex No.: 884901
Attention: Clive Farrand

CREDITORS

Office Memorandum

MAR 28 1984

TO : The Managing Director

DATE: March 27, 1984

FROM : L. A. Whittome /LAW/

SUBJECT : Yugoslavia--Letter of Intent

The attached copy of the Yugoslav letter of intent, signed by Minister Klemencic and Governor Makic, was handed to us in Geneva over the weekend.

Attachment

cc: The Deputy Managing Director
Mr. Collins
CED

Yugoslavia - Notes for the Geneva Meeting on March 24, 1984

1. Recent developments

a. External accounts

The c/a balance with convertible area improved more than programmed in 1983: to a surplus of US$300 million instead of a deficit of US$500 million. (Deficit in 1982: US$1.6 billion or 2 1/2 percent of GSP.) The c/a with the nonconvertible area was in balance.

There was a substantial capital outflow in 1983 and, instead of a buildup of reserves of about US$600 million as programmed, a decline of US$55 million was recorded. This was mainly on account of short-term capital outflows and errors and omissions; the latter item alone swung from a surplus of US$660 million in 1982 to a deficit of more than US$1,230 million. (Reasons: nonpayment of export receipts from LDCs (mainly Iraq), extension of the period of repatriation of export proceeds from 60 to 90 days, and, more importantly, negative real interest rates in Yugoslavia.)

Disbursments of capital flows in 1983 are shown in Table 2.

b. Domestic economy in 1983

There was a substantial decline in domestic demand. Real wages in the socialized sector fell by 10 percent (25 percent over the last four years). Private consumption, however, fell by only 2 percent. (Incomes apparently remained buoyant in nonsocialized sector.) Gross fixed investment declined for the fourth year in a row. Total GSP fell by 2 1/2 percent.

Industrial production rose by more than 1 percent. Inventories, even of imported goods, increased. There is an apparent conflict between these latter developments and the figures for imports, (a decline of 11 percent from the nonconvertible area and 5 percent total). There may have been

underreporting of imports (possibly related to the foreign exchange allocation system).

Retail prices rose by 58 1/2 percent during the year, compared with 31 percent during 1982.

c. Financial policies in 1983

(1) The real effective exchange rate depreciated by 25 percent during the year.

(2) Public sector revenue fell by 5 percent in real terms and there was a small public sector surplus.

(3) The stock of real money declined by 12 percent, and real domestic credit by 17 percent.

(4) Interest rates for deposits were raised in February together with the discount rate and selective lending rates of NBY. The latter were raised again in July, but the scheduled further increases for deposit rates at the end of the year were not implemented. Rates became increasingly negative during the year.

2. Balance of payments and reserves in 1984

Balance of payments developments. (Table 1 is to be distributed at the meeting). Main features: c/a target of US$500 million. (Yugoslav estimate somewhat higher, US$800 million). Balance on c/a with nonconvertible area. Balance on capital account. Consequently, there will be a buildup of reserves of US$500 million. A reserves test is incorporated in the program. Need for buildup of reserves during 1984:

(i) reserves at the end of 1983 equivalent to only 10 weeks of merchandise imports from the convertible area;

(ii) normal seasonal needs in first half of 1985;

(iii) some US$800 million in short-term debt (rolled over in January 1983) falls due in January 1985.

Capital inflows illustrated in Table 2 (to be circulated at the meeting). It is important that there be no slippage in these identified capital flows because of tight reserve position.

"Errors and omissions" need to be limited to the figure shown in Table 1. There is much uncertainty about this figure. (Again illustrates the need for no slippage in implementing the financing package. However, this point cannot be pressed too hard, since the governments could then argue that the program negotiated is unsatisfactory.)

3. Interest rate and Exchange rate adjustments in 1984.

Office Memorandum

March 21, 1984

To: Mr. Whittome
Mr. Schmitt

From: Jack Boorman

Subject: Yugoslavia - Speaking Notes for Geneva

Attached please find a revised version of the speaking notes on recent developments and near term prospects in Yugoslavia for the Geneva meeting.

Att.

Jan Feb 84

Yugoslavia - Notes for the Geneva Meeting on March 24, 1984

1. Recent developments

a. External accounts

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There was a substantial capital outflow in 1983 and, instead of a buildup of reserves of about US$600 million as programmed, a decline of US$55 million was recorded. This was mainly on account of short-term capital outflows and errors and omissions; the latter item alone swung from a surplus of US$660 million in 1982 to a deficit of more than US$1,230 million. (Reasons: nonpayment of export receipts from LDCs (mainly Iraq), extension of the period of repatriation of export proceeds from 60 to 90 days, and, more importantly, negative real interest rates in Yugoslavia.)

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Industrial production rose by more than 1 percent. Inventories, even of imported goods, increased. There is an apparent conflict between these latter developments and the figures for imports, (a decline of 11 percent from the nonconvertible area and 5 percent total). There may have been

underreporting of imports (possibly related to the foreign exchange allocation system).

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c. Financial policies in 1983

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(2) Public sector revenue fell by 5 percent in real terms and there was a small public sector surplus.

(3) The stock of real money declined by 12 percent, and real domestic credit by 17 percent.

(4) Interest rates for deposits were raised in February together with the discount rate and selective lending rates of NBY. The latter were raised again in July, but the scheduled further increases for deposit rates at the end of the year were not implemented. Rates became increasingly negative during the year.

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Capital inflows illustrated in Table 2 (to be circulated at the meeting). It is important that there be no slippage in these identified capital flows because of tight reserve position.

"Errors and omissions" need to be limited to the figure shown in Table 1. There is much uncertainty about this figure. (Again illustrates the need for no slippage in implementing the financing package. However, this point cannot be pressed too hard, since the governments could then argue that the program negotiated is unsatisfactory.)

3. Interest rate and exchange rate adjustments in 1984

The Yugoslav authorities have decided to define a target of interest which will make interest rates positive in real terms. Interest rates on dinar deposits of varying maturities will be adjusted to this target according to a fixed schedule. The first step on May 1, 1984 will close 40 percent of the gap between the end-1983 rate and the target rate on three-month deposits of households. In nominal terms the increase will be from 12 percent to about 30 percent. At the same time, three-month deposits will be available to enterprises at the same interest rate that applies for households. The remaining gap of 60 percent will be closed in four equal steps by 15 percent each on July 1 and October 1, 1984, and on January 1 and April 1, 1985. The discount rate and other lending rates of the National Bank of Yugoslavia will be adjusted commensurately.

To recapture a degree of competitiveness adequate to support their external objectives, the Yugoslav authorities have decided to restore the real depreciation of the dinar since the beginning of 1983 to close to 25 percent in two steps, one by April 30, 1984 and the other by June 30, 1984. Thereafter, they will hold the real rate constant by monthly exchange rate changes sufficient to equalize inflation rates at home and abroad, as measured by producer prices.

monetary
fiscal
wages
~~subsidies~~

loss makers
& illiquid

doubts

weaknesses in 84 short term cap flows
prices

long term use of resources

March 20, 1984

Subject: Medium-Term outlook/policy agenda beyond 1984

Summary:

Exchange rate policy and other measures in 1983 produced a satisfactory current account outturn in convertible currencies; interest rate policy in 1984 should reverse the unsatisfactory recent performance on the capital account. In 1985 and beyond efforts to make the current account surplus a sustainable one will need to be continued and intensified; the improvement so far cannot as yet be termed fundamental. Among the Government's key medium term objectives are a reduction in foreign debt exposure, the development of a unified foreign exchange market and, more generally, an increased reliance on market forces. (1)

1. Exposure to external debt

The need for external adjustment in the medium term is to be assessed in the light of Yugoslavia's objective of reducing its exposure to external debt. A range of possibilities is discussed in Appendix III of the Board paper. Under scenario 3 (to be distributed to participants in Geneva), a modest interpretation of this objective is given, namely that the dollar value of Yugoslavia's outstanding foreign debt should remain stable over the next several years. A current account surplus is thus required, given the need to build up external reserves in the years beyond 1984. Nevertheless, unless the compression of imports has been overdone to a greater extent than evidence to date would suggest, the growth performance in the second half of the ~~1980s should~~ be notably better than in the first half of the decade. (The extent to which this growth potential is realized, and with it an easing of the difficult unemployment situation, (2) will depend on the authorities' success in stimulating the interregional mobility of labor and capital resources.)

2. Prospects for the external sector

During the 1981-83 stand-by period a substantial current account deficit in convertible currencies was transformed into a surplus through a compression of merchandise imports throughout the period (-37 percent in volume terms over the last three years; the decline in total merchandise imports, including those from the nonconvertible area, is less pronounced), and a substantial increase in exports in 1983. The aggressive exchange rate policy in 1983 produced a powerful incentive to expand exports. However, only part of this incentive has thus far been reflected in the volume and structure of export production; what is required is to elicit a fuller response. The growth of industrial output has thus far not been concentrated in industrial branches oriented towards the production of exports (Chart 4 of Board paper) or of import substitutes. Until this happens, the improvement in the current account cannot be regarded as fundamental. That is, the adoption of a growth-oriented policy strategy may, at this stage, only cause the external imbalance to re-emerge. Thus, in the period beyond 1984 the focus of policy will need to relate not so much to further increases in the current account surplus but, rather, to changes in the structure of production and consumption that will consolidate the improvement in the external balance. This entails not only a shifting of resources to the tradable goods sector but within that sector away from unviable enterprises and lines of production to the more efficient ones.

3. Greater efficiency of resources allocation

a. Foreign exchange

In order to enhance the economic gains from a given increase in foreign exchange earnings, the Yugoslav authorities have committed themselves to the medium-term objective of developing a unified, i.e. nationwide, foreign exchange market. Political sensitivities, owing especially to the uneven regional impact of changes to the present foreign exchange allocation system, make progress in this area unusually difficult. (One could refer to the two studies of the foreign exchange allocation system.) However, the inefficiencies caused by the fragmentation of the foreign exchange market have been lessened by the move in 1983 toward a market-clearing exchange rate. More such movement may be necessary after 1984.

b. Mobility of capital and labor

There is a need to reduce the various formal and informal mechanisms for transferring resources from profitable to financially weak or inefficient enterprises. Policy elements of the 1984 program that have this aim will be assessed, including the reduction of federal export subsidies (that distort exchange rate signals), the reduction of subsidies through joint reserve funds (that distort market signals more generally), using wage policies to induce a shift of labor from ailing enterprises, and a more rational interest rate policy to encourage an efficient allocation of financial resources. In the light of this experience new initiatives will be put forward in 1985 and beyond.

4. Need to make policy instruments more effective

a. Fiscal policy

A harmonization of the tax policies of the various republics and provinces is underway and will be implemented in the course of 1984. In 1985 and beyond this should make it possible to wield conventional fiscal policy instruments at a centralized level more effectively than before. Also, more is to be done in the next few years that would allow tax policy to exert a greater influence over the development of ~~the~~ a larger proportion of household income, and, hence, private consumption than is now possible.

b. Monetary policy

Further efforts to make monetary policy more effective (i.e., apart from the beneficial impact of the rise in interest rates over the next year) will be needed in the medium-term. Ways will need to be found to break down barriers to interregional financial flows; but of course the political obstacles are daunting.

c. Incomes policy

As noted in the Board paper, a social compact on incomes policy is being worked out, but it is uncertain whether incomes policy can reasonably be expected to contribute to a stabilization program.

d. Investment policy

A methodology is being worked out with the World Bank for defining priorities for investment projects more precisely and rigorously. Greater selectivity should result, which would boost the efficiency of investment.

For Folder JB

Office Memorandum

To: Mr. Whittome

From: Jack Boorman

March 21, 1984

Subject: Yugoslavia: Geneva Meting on March 24, 1984

1. I attach a draft Press Communique for the Geneva meeting. I have tried to contact Ms. Constable but am told she has already left the U.S. Moreover, we are informed that she is the sole U.S. delegate to the meeting. Consequently, I have not been able to address the issue raised in the last paragraph of your note this morning to Mr. Schmitt and me. This has forced rather vague wording which may not leave either the country delegates or the Yugoslav authorities comfortable.

2. Mr. Martin of the Swiss Embassy has informed me that there will will be four secretaries available for the meeting in Geneva each with facility in French and English.

Att.

For Yugs 1) presentational draft & debt rescheduling plans
2) possibly additional plans
3) use [illegible] plans to reserve

For creditors (1) strengthen Yugs commitment [illegible] to [illegible] allow [illegible]

For Swiss [illegible] quantification of addit plans

Intergovernmental Meeting on Yugoslavia

Geneva, March 24, 1984

Press Communiqué

Representatives of foreign governments (Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Kuwait, Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States [and Spain as observer] met in Geneva on March 24, 1984 under the chairmanship of Secretary of State Raymond Probst. The Yugoslav delegation was led by Mr. Janko Smole, member of the Federal Executive Council. Representatives of the IMF and the World Bank also attended the meeting.

Participants at the meeting reviewed the implementation of the 1983 financing package and discussed prospects for 1984. Subject to approval by the Board of the IMF of the stand-by arrangement for 1984, country delegates expressed their intention to reschedule 100 percent of the maturities falling due in 1984 on credits extended by Governments or guaranteed by them, having an original maturity of more than one year, pursuant to contracts concluded before December 2, 1982. [Participants also expressed their willingness to keep Yugoslavia on cover for export credits on normal market terms.]

March 21, 1984

Points for State Secretary Probst

1. The Berne meeting in 1983 agreed that credit for intermediate goods extended under its terms would be exempt from the normal Berne Union rules. We understand that governments are not prepared to make a similar concession in regard to any new credits they might extend for 1984 though this should be tested. However, the Berne package credits carried into 1984 should surely be treated in the same way as the disbursements made during 1983. This last point needs to be verified.

2. It would be useful to draw out the intentions of the main creditors as far as they are prepared to go in a public meeting. The U.S. should be the starting point.

3. Confirmation should be sought that all main export credit agencies remained in cover to Yugoslavia (we understand that this may not be the case in Japan).

4. Insofar as indications by governments suggest that the inflow of capital to Yugoslavia would be larger than has been forecast this should be taken as a welcome development. It will help offset any adverse movement on short-term capital flows over and above that foreseen in the forecast and it may also allow a somewhat higher level of imports as well as a further building up of official reserves.

5. The position as regards the negative pledge clause could prove to be important but surely cannot be raised in the meeting.

6. Communication of intentions of governments to be given to ICC by State Secretary Probst at some date after the meeting.

March 21, 1984

Suggestions for Mr. Smole

1. Graceful thank you to the Swiss--mention Probst by name--and a thank you to others for attending.

2. Speak on 1984 program and objectives. Stress Yugoslavia's commitment and the Government's belief in these measures. Refer to any differences as ones of timing only.

3. Say that nevertheless measures had to be agreed over opposition of powerful interest groups and the Government would be greatly helped by as firm a public declaration as possible on agreement to reschedule the 1984 maturities to Governments.

4. If net capital flows are larger than projected some part will be used to build up official reserves further. Own target of Federal Govt is + $1 bn for reserves.

SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA
FEDERAL SECRETARIAT FOR FINANCE
11070 BEOGRAD

Belgrade, March 20, 1984

Dear Mr. de Larosiere,

1. The stabilization program which we pursued over the last three years, and which was supported by a stand-by arrangement with the Fund, has begun to show substantial results. In particular, the deficit on external current account in convertible currencies, after reaching a peak of US$3,3oo million in 1979, was turned into a surplus of US$3oo million in 1983. The swing in the last year alone came to about US$1,9oo million. Part of this improvement was due to changes in the regional distribution of trade, and to a compression of imports, neither of which can be continued in 1984. The underlying adjustment, nevertheless, will in our judgment permit a further improvement in the external current account to a surplus in 1984 of at least US$5oo million.

2. Developments in the external balance on capital account have been less satisfactory; as a result the increase in external reserves which we had targeted at the beginning of 1983 did not materialize. The most disappointing among the reasons for this outturn has been a swing in transitory items from a surplus of US$66o million to a deficit of perhaps as much as US$1,2oo million, which nearly offset the whole of the improvement in the external current account. Apart from safeguarding the momentum of improvement in current transactions, therefore, our program for 1984 places particular emphasis on measures to improve the balance on capital account, so as to ensure an increase in official external reserves of at least US$5oo million.

3. Final domestic demand was cut back by 4 percent in 1983, and though exports to the convertible currency area began to respond forcefully to the gain in competitiveness during the year, gross social product (GSP) still showed some decline. A further reduction in domestic demand will again be necessary for balance of payments reasons in 1984, but as exports continue their recovery we expect that any tendency for GSP to decline will be reversed. The program we have adopted to reach these objectives is set out below. In support of it we request, on behalf of the Federal Executive Council of the Socialist Federal Republic of Yugoslavia; a stand-by arrangement with the Fund in an amount equivalent to SDR 37o million.

Price Policy

4. We see the program for 1984 as a stage in a longer-term stabilization process. Operating at normal capacity, the economy a few years ago ran a deficit on external current account that could not be financed on a sustainable basis. It can return to normal capacity production with external balance only after the structure of production has shifted sufficiently away from sectors that supply mainly domestic markets to sectors that can supply external markets as well. Such structural change entails temporary inflationary pressure as prices in priority sectors rise relative to those elsewhere. It also requires that many production programs and enterprises in the declining sectors retrench or be phased out as those in priority sectors expand.

5. For structural adjustment to take place as smoothly and as rapidly as possible relative prices need to be flexible. In recognition of this point a selective price freeze was allowed to lapse in July 1983, despite the additional push to inflation that it entailed. However, as price adjustments began to show a tendency toward overshooting around the turn

of the year, a new price freeze was imposed effective December 23, 1983. Following a cooling off period, this freeze will now be lifted no later than May 1, 1984. From then on the proportion of industrial output free of price control will be expanded from the 45 percent in effect before the latest freeze, to at least 55 percent, leaving some 35 percent with prices subject to approval by the relevant authorities, and lo percent with prices set by the authorities directly.

6. The latest price freeze was preceded by increases particularly in railway and in electricity tariffs to bring them closer to economic levels. Further increases in relative prices in key sectors, notably railways and electric power, are planned for later in 1984 and in the years beyond. Periodic checks will ensure that, for the remainder of 1984, both railway and electricity tariffs will do no less than keep pace with increases in producer prices, and that prices of natural gas, oil and oil derivatives rise no less than the dinar exchange rate of the dollar (Annex I). We expect that more frequent and gradual adjustments to administered prices such as are now planned will help to avoid future shocks to the general price level.

Exchange Rates

7. Exchange rate depreciation was one of the important elements in the stabilization program for 1983. By raising the dinar price of exports above producer prices realized at home, it was to provide the major incentive for shifting production toward exports and import substitutes, and thus to permit a return to capacity production with external equilibrium. To calm price expectations, the monthly depreciation of the exchange rate was temporarily discontinued around the turn of the year. However, to achieve a level of competitiveness adequate for a substantial liberalization of our trade and

payments system, we shall by June 3o, 1984 reach a target real depreciation of about 25 percent since the start of 1983, and hold it there by monthly adjustments sufficient to compensate for inflation differentials from the start of 1984 (Annex II).

8. We have already acted to expand the scope of a unified foreign exchange market. As of the beginning of this year, 54 percent of foreign exchange receipts from the export of goods and nonfactor services is transferred through authorized banks to an account in the National Bank of Yugoslavia to cover specified payments needs, including collective needs in the republics and provinces. The remaining 46 percent is divided into two parts. One part is retained by net exporters to meet their direct and indirect foreign exchange requirements. The rest is sold to authorized banks, which will offer it for sale to net importers or to other banks in the foreign exchange market. Enterprises that cannot service external debts from their own resources or those of associated enterprises may draw in turn on those of their own bank, other banks in the republic or province in which they reside, other banks in the country at large, or the National Bank of Yugoslavia.

9. This is as far as we have carried the liberalization of our payments system to date. We are conscious that, as the flow of foreign exchange to Yugoslavia is normalized, further progress will be possible, based on the consent of those who earn the foreign exchange and to whom it therefore belongs. An official review will be considered in the Assembly of the SFRY by mid-year. We have also consented to a separate study of the operations of the present system by a group chaired by the International Monetary Fund with the assistance of expert consultants from inside and outside Yugoslavia. This study will be completed not later than August 31,1984, before the review of the stand-by arrangement specified in paragraph 24, to help in defining any further measures that may be deemed necessary to improve the efficiency of the system.

Financial Discipline

lo. The restructuring of the economy that will permit a rapid expansion of economic activity without external risk, needs to be accelerated if inflationary pressures are to be contained. To this end the real resources available for subsidizing firms, some of which should be phased out, need to be reduced. The annual contributions into Joint Reserve Funds for 1984 were already determined before new directives could be implemented (Annex III). However, we have arranged that the percentage increase in payments from such funds during 1984 will be limited to one-half the percentage increase in the retail price index over a year earlier. Greater selectivity will be required in the choice of enterprises to be supported, so as to help accelerate structural change.

11. We are also requiring that basic work units, whose deficits caused the 1983 consolideted accounts of the enterprise to show losses, limit the percentage year-on-year growth in their personal income payments in 1984 to two-thirds the growth in the personal income payments in the socialized sector of the republic or province in which they are domiciled. Similarly, with effect from July 1, 1984, illiquid basic work units in enterprises that fail to meet their obligations to creditors when due, will be required until they are again current in their debt service obligations, to limit the percentage year-on-year growth in their personal income payments per employee, to one-half the percentage growth in the personal income payments per employee in the socialized sector of the republic or province in which they reside.

Interest Rates

12. The acceleration of inflation last year frustrated our efforts to raise interest rates on dinar deposits to more nearly positive levels in real terms. Nominal rates on such

deposits were to have been increased substantially at the end of last year, but were left unchanged at their levels of February 1983. Disregarding the strictly temporary complicatioı introduced by the price freeze, such interest rates accordingl; remain substantially negative in real terms, and disadvantage those who switch foreign exchange into dinars. By encouraging delays in payments from abroad, such a situation reduces the supply of foreign exchange for imports. A shortage of imports in turn exacerbates the inflationary pressures that we intend to reduce.

13. A decisive move to raise nominal rates on dinar deposits to more competitive levels has therefore been decided upon. Competitive levels would normally be defined as the yield in dinar terms of deposits abroad of comparable maturity. As exchange rate changes are only to equalize inflation differentials, following a corrective adjustment, the twelve-month change in producer prices plus a target real rate will do equally well. The difference between the initial rate on dinar deposits of three months and the target rate so defined, will be eliminated by April 1, 1985 in progressive installments starting May 1, 1984 (Annex IV). The discount rate and other lending rates of the National Bank of Yugoslavia will be similarly adjusted.

14. A firm timetable for interest rate increases has been set to ensure the attainment of our objectives. Negative real interest rates are an instrument for subsidizing borrowers, the real value of whose debt falls as prices rise, at the expense of depositors, the real value of whose deposits diminishes for the same reason. Unrealistically low interest rates help to maintain uneconomic enterprises, and in view of their adverse impact on external capital flows, they do so in a particularly damaging way. Their correction must nevertheless be phased in order to allow time for the necessary adjustments, and to be accompanied by measures, which we have instituted, to improve the financial structure of

viable enterprises, that relied too heavily on debt financing in the past.

Credit Ceilings

15. Credit ceilings will again be required to ensure that the total claims on resources in the economy do not exceed the available supply, and that within this constraint priorities are clearly defined and enforced. In the process, structural adjustment will again be advanced and inflationary pressures moderated. During 1983 the stock of broad money declined by some 12 percent in real terms, due in part to a rate of inflation that turned out to be higher than originally assumed. A certain degree of flexibility was provided by the exclusion from the ceilings on net domestic assets of the banking system, by which monetary policy is defined, of valutation changes in net foreign liabilities and in foreign exchange deposits, but not so much as to thwart the intended effect of the ceiling.

16. Because of the uncertainty regarding inflation, we have again chosen to define our monetary ceilings in terms of the net domestic assets of the banking system, excluding valuation changes on net foreign liabilities and on foreign currency deposits. In fixing them for 1984 we have also taken into account the probable effects of interest rate increases on the desire to hold money. On this basis we calculate the ceiling for end-December 1984 at Din 4,633 billion compared with Din. 3,942 billion a year earlier. A quarterly phasing of this increase through the year has been set (Annex V). Within each total, allowance is made for the planned increases, described below, in the net asset position of the public sector with the banking system.

Public Finance

17. The public sector will continue to contribute substantially to the improvement in the external balance, and to the moderation in inflationary pressure, by further reducing both its revenues and expenditures in real terms. For the republics and provinces, the cumulative quarterly year-on-year increase in revenue for general and collective consumption will be limited to 75 percent of the cumulative year-on-year percentage rise in total income of the socialized sector, except for the first quarter in which revenues are not to exceed their nominal level in the last quarter of 1983. Although federal and other revenues are exempt from this limit, the quarterly increase in total public sector revenue will be limited to 85 percent of the increase in the retail price index over the previous year, and will be monitored in that way (Annex VI).

18. Over the past few years public expenditures have risen even more slowly than revenues, and net assets with the banking system have accumulated commensurately. The increase in such assets was due in part to the requirement to deposit excess revenue in blocked accounts set up under the last stand-by arrangement. This practice permitted a larger expansion of credit to the productive sector within a given overall credit ceiling. To serve the same purpose more simply in 1984 we have set a minimum level for the public sector's net assets with the banking system, phased quarterly over the year. The amount of the increase, at Din 4o billion, is comparable to the 1983 performance in relation to public sector revenue as presently forecast (Annex VII).

19. Expenditure restraint will be concentrated on the payment of subsidies, particularly on subsidies to exporters who will receive sufficient stimulus by way of the exchange rate. Specifically, payments to export producers by the Community of Interest for Foreign Economic Relations, other than the customs duty drawback and the contribution to agricultural support funds, will be progressively reduced or

eliminated in 1984. There will be no change in the proportion of import duties and fees credited to that Community. The resulting surplus revenues of that Community will be channeled into the blocked accounts set up under last year's stand-by arrangement. These deposits will not add to the growth already stipulated for the public sector's net assets with the banking system; they will rather be a component of it.

External Debt

2o. We expect by these various measures to reach, and even to exceed, our external current account objectives and also to improve our performance on capital account. We are determined to begin reducing our external debt as soon as possible. Gross borrowing last year came to the equivalent of about US$4.3 billion; we expect to limit our requirements this year to US$ 3.3-3.5 billion (Annex VIII). To secure this amount we have again entered into arrangements with a group of creditor governments and banks to refinance debt falling due, and expect to draw a limited amount of fresh money to build up the reserves. We will make the progressive buildup of our reserves, by a total of US$5oo million, a test of the success of our program (Annex IX).

21. Despite the scarcity of resources a certain outflow of capital from Yugoslavia is normal and acceptable. However,the outflow of export financing and short-term capital of roughly US$2.o billion in 1983 was clearly excessive. We will spare no effort to reduce such flows to no more than US$5oo million in 1984, and to cover them by an equivalent surplus on current account in convertible currencies. One central element in achieving this reduction in capital outflow is our move to an active interest rate policy. In addition, we have intensified the application of controls on the repatriation of export earnings. If exporters fail to repatriate export proceeds within 9o days their credit line for that export will be withdrawn.

22. We have also decided to facilitate an accelerated drawdown on external lines of credit, particularly of the supplier credits granted by the Berne group of governments. The administrative regulations governing their utilization proved too restrictive in 1983. In order to ensure the availability of foreign exchange to repay the foreign credits, drawings were made available only to exporters who had proof of export orders in hand, and raw material imports financed by supplier credits have had to amount to less than 5o percent of the value of the export into which they entered. Along with the improvements in the foreign exchange allocation mechanism, the close link has now been broken between exports and imports in the allocation of external credits, so as to allow the financing of imports of general interest to the economy.

Other Matters

23. The Federal Executive Council of Yugoslavia does not intend to introduce any multiple currency practices or introduce new or intensify existing restrictions on payments and transfers for international transactions or enter into any bilateral payments arrangements with Fund members. A limitation on the export and import of dinars for travel to Din. 1,5oo per person for the first trip, and to Din 2oo per person for each subsequent trip within one year, has helped to reduce illegal currency transactions, and will be removed as soon as circumstances permit. The Federal Executive Council does not intend to introduce new restrictions or intensify existing restrictions on imports for balance of payments reasons.

24. The Federal Executive Council believes that the policies set forth in this letter are adequate to achieve the objectives of its program but will take any additional

measures that may have become appropriate for this purpose. The Yugoslav authorities will review economic developments in 1984 with the staff of the Fund on a quarterly basis. They will consult with the Fund as soon as is practicable after September 1984, and in any case not later than November 3o, 1984 in order to review developments under the program and to reach such understandings with the Fund as may be necessary including such modifications of the performance criteria that may be appropriate. Finally, the Federal Executive Council will consult with the Fund, in accordance with the Fund's policies on consultations, on the adoption of any measures that may become appropriate.

Yours sincerely,

Radovan Makić
Governor, National bank
of Yugoslavia

Vlado Klemenčič
Federal Secretary for
Finance

TECHNICAL MEMORANDA

1. Price Adjustments

2. Calculation of the Index of the Exchange Rate

3. Financial Discipline in the Enterprise Sector

4. Interest Rates of Yugoslav Banking System

5. Domestic Assets of the Yugoslav Banking System

6. Public Sector Revenue Ceiling

7. Net Assets of the Public Sector with the Banking System and the Blocking of Excess Revenue of the Community of Interest for Foreign Economic Relations in the National Bank of Yugoslavia

8. External Borrowing Limits

9. Balance of Payments Test

ANNEX I

Subject: Technical Note on Price Adjustments

1. Railway tariffs will be increased periodically in the course of 1984 such that, on average, they are at least 10 percent higher than the average level of railway tariffs at the end of December 1982, multiplied by the index of industrial producer prices expressed with a base of December 1982 equal to 1.00, as indicated below:

Average railway tariffs shall be a minimum of 10 percent higher than the average at the end of December 1982, multiplied by the index of industrial producer prices, with a base of December 1982 equal to 1.00, for the month of:	Corresponding average level of tariffs to be made effective not later than:
April 1984	June 30, 1984
October 1984	December 31, 1984

For the purpose of this calculation, the increase in freight rates and in passenger fares are assumed to have weights of 80 percent and 20 percent, respectively, in the share of railway revenue.

2. Electricity tariffs will be adjusted periodically in the course of 1984 such that the adjusted electric power subindex of the industrial producer price index, with a base of March 1983 equal to 100, is at least 15 percent higher than the industrial

producer price index that covers the same length of time, but with a lag of one month, as shown below. For this purpose the industrial producer price index is expressed with a base of February 1983 equal to 100.

The adjusted electric power price index (March 1983 = 100) for the month of:	Shall be at least 15 percent higher than the industrial producer price index (February 1983 = 100) for the month of:
April 1984	March 1984
December 1984	November 1984

3. The adjusted electric power subindex for a specified month is equal to the official electric power price subindex also expressed with a base of March 1983 equal to 100, divided by the seasonal coefficients. The seasonal coefficients listed below permit a comparison of electricity tariff schedules between months involving both winter and summer tariffs. In particular, the coefficients indicate what the relative movement of the publisched electricity price index would have been in the course of 1983, if there had not been increases in the set of tariff schedules but only the usual shifts between winter and summer tariffs.

ANNEX I

Seasonal coefficients

January	1.210
February	1.210
March	1.000
April	0.871
May	0.879
June	0.879
July	0.879
August	0.879
September	1.081
October	1.210
November	1.210
December	1.210

4. The average producer prices of domestic natural gas, of crude petroleum and of petroleum products (including gasoline, kerosene, diesel oil, fuel oil and LPG) will be increased on a quarterly basis by no less than the percentage increase in the dinar/U.S. dollar exchange rate in the course of 1984, as shown below:

Minimum Percentage Increase in Each of the Domestic Natural Gas, Crude Petroleum, and Petroleum Products Prices Over Those in Effect as of January 31, 1984

Equal to the percentage increase in the exchange rate, dinars per U.S. dollar, from December 31, 1983 until:	To be made effective no later than:
March 31, 1984	April 30, 1984
May 31, 1984	June 30, 1984
August 31, 1984	September 30, 1984
November 30, 1984	December 31, 1984

5. The price adjustments specified in paragraphs 1-4 above are understood to be minima and will not bar other increases in prices in real terms that may be agreed upon with the World Bank.

6. A record of the price increases stipulated in paragraphs 1-4 will be published, as they take place, in the Official Gazette of the Socialist Federal Republic of Yugoslavia or in the official gazette of the relevant republic or province.

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

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

1. The real exchange rate of the dinar is expressed as 0.35 (deutsche mark per dinar) plus 0.24 (Italian lire per dinar) plus 0.15 (U.S. dollars per dinar) plus 0.12 (French francs per dinar) plus 0.06 (Austrian schillings per dinar), plus 0.04 (Swiss francs per dinar) plus 0.04 (pounds sterling per dinar) with a base of December 31, 1983 equal to 100 for each bilateral exchange rate of the dinar, multiplied by the ratio of an index of the movements in Yugoslavia's industrial producer prices to a weighted index of the movement in industrial producer prices in the foregoing seven countries as specified in section 3 below.

2. 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 December 31, 1983.

3. The weighted index of industrial producer prices in the foregoing seven countries is defined as 0.35 (index of German prices for industrial products) plus 0.24 (index of Italian wholesale prices) plus 0.15 (index of U.S. wholesale prices for industrial goods) plus

0.12 (index of French prices of industrial goods) plus 0.06 (index of Austrian wholesale prices) plus 0.04 (index of Swiss prices for home goods) plus 0.04 (index of U.K. prices of industrial output) 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 December 31, 1983.

4. 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. No later than 10 days after the end of each month, the following data as of the end of the month will be telexed to the Fund: dinar exchange rates of each of the seven foreign currencies, and the indices of the nominal exchange rate, the real exchange rate, Yugoslav industrial producer prices, the weighted average of seven foreign industrial price indices, and relative industrial prices, where each index is expressed with a base of December 31, 1983 equal to 100.

5. The index of the real exchange rate of the dinar, with a base of December 31, 1983 equal to 100, will be no higher than 110.4 at the end of March 1984, no higher than 105.8 at the end of April and end of May 1984, and no higher than 101.3 at the end of June 1984 and at the end of each month thereafter. A margin of error of 1.0 percentage point will be acceptable.

ANNEX III

Subject: Technical Note on Financial Discipline in the Enterprise Sector

1. For the purpose of this agreed memorandum, a loss-making enterprise is understood to mean any work organization in the socialized sector, which for the calendar year 1983 registered a financial loss in its annual financial report to the SDK, as determined before taking into account any outside grants, subsidies, or credits which may be used tc cover such losses. Cumulative quarterly limits on personal income payments will apply to all loss-making basic organizations of associated labor (BOAL) within each loss-making enterprise for the periods shown below and will be calculated such that the percentage increase in total payments of personal incomes by all such loss-making BOALs over the corresponding period of the preceding year will be no more than 67 percent of the percentage increase in total payments of personal incomes in the socialized sector in the republic or autonomous province in which the enterprise is domiciled, over a similar period of time but with a lag of one quarter. If an enterprise with a financial loss in 1983 registers a financial surplus for the first nine months of 1984, the above restriction on payments of personal incomes by its BOALs will be lifted in the fourth quarter of 1984 after these results become known.

ANNEX III

	Periods for which the Percentage Increases in Total Payments of Personal Incomes Shall be Calculated	
	Personal Income Payments by Affected Loss-Making BOALs	Personal Income Payments in the Socialized Sector
Second quarter	Jan.-June 1984 / Jan.-June 1983	Oct. 1983-March 1984 / Oct. 1982-March 1983
Third quarter	Jan.-Sept. 1984 / Jan.-Sept. 1983	Oct. 1983-June 1984 / Oct. 1982-June 1983
Fourth quarter	Jan.-Dec. 1984 / Jan.-Dec. 1983	Oct. 1983-Sept. 1984 / Oct. 1982-Sept. 1983

2. For a BOAL with obligations to creditors due and unpaid that is in a similarly illiquid work organization, the percentage growth of payments of personal incomes per employee will be restricted to 50 percent of the percentage growth of payments of personal incomes per employee in the socialized sector of the relevant republic or province. Beginning with the month after such an enterprise has eliminated all payments arrears, the restriction on personal income payments will be lifted, provided that the clearing of arrears did not include grants or borrowing other than bank credit on commercial terms. Legislation to that effect will be implemented by July 1, 1984.

3. Exceptions to the limitations in sections 1 and 2 will be made for loss-making BOALs in the following branches: electricity (0101), coal production (0102), ferrous metals (0107), production of foodstuffs (0130), health and social security (1300), and railways (0601).

ANNEX III

4. Any increase, in nominal terms, in payments (including credit extended) from Joint Reserve Funds, which have been formed outside of any one work or composite organization of associated labor, will be subject to cumulative quarterly limits, such that the percentage increase in aggregate payments from Joint Reserve Funds (including both grants and credits) will be no more than 50 percent of the percentage increase in the retail price index over a similar period of time but with a lag of one quarter, as shown below:

	Periods for which the Percentage Increases in Joint Reserve Funds´ Outlay for Grants and Credits and the Retail Price Index shall be Calculated	
	Outlays of Reserve Funds	Retail Price Index
Second quarter	Jan.-June 1984 / Jan.-June 1983	Average (6 mos. to March 1984) / Average (6 mos. to March 1983)
Third quarter	Jan.-Sept. 1984 / Jan.-Sept. 1983	Average (9 mos. to June 1984) / Average (9 mos. to June 1983)
Fourth quarter	Jan.-Dec. 1984 / Jan.-Dec. 1983	Average (12 mos. to Sept.1984) / Average (12 mos. to Sept.1983)

ANNEX IV

Subject: Technical Note on Interest Rates of the Yugoslav Banking System

1. It is agreed that for three-month dinar deposits of households, the interest rate will be adjusted on May 1, 1984 so as to eliminate 40 percent of the difference between the nominal interest rate as of January 1, 198 and the target nominal interest rate which is calculated as defined in section 2 below. Enterprises will receive the same interest rate on three-month deposits as apply to households. The three-month interest rate will be adjusted on July 1, 1984 to eliminate 55 percent of the difference between the target nominal interest rate as of that date and the rates in effect on January 1, 1984. Similarly, on October 1, 1984 70 percent of the difference, and on January 1, 1985 85 percent of the difference between the interest rate as of January 1, 1984 and the target nominal interest rate on the respective dates will be eliminated. On April 1, 1985 the interest rate for three-month deposits will be set at its target nominal level.

2. The target nominal interest rate for three-month dinar deposits of households and enterprises is equal to the percentage increase in the industrial producer price index over the preceding 12 months plus 1 percentage point. Thus, for the purpose of adjusting interest rates on May 1, 1984 the target rate for three-month dinar deposits will be based on the percentage increase in producer prices from March 1983 to March 1984.

3. The discount rate of the National Bank of Yugoslavia will be increased on May 1, 1984 to the same level as the new three-month dinar deposit rate. Thereafter, the discount rate will be adjusted according to

the method and timing described in section 1 on the basis of the same target nominal interest rate that applies to three-month dinar deposits. Adjustments to interest rates of the National Bank of Yugoslavia on credits for selective purposes will be three-quarters of the contemporaneous adjustment, in percentage points, of the discount rate of the National Bank of Yugoslavia, beginning with the adjustment in May 1984.

4. Any modifications in the schedule of changes in interest rates that in the view of the Yugoslav authorities may become necessary will be reviewed with the Fund in the context of the consultation specified in paragraph 24 of the letter of intent.

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

1. The banking system is defined as the consolidated accounts of the national banks and 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 1983 (In billions of dinars)
Net foreign liabilities	1,202
Plus M2 (money and quasi-money)	2,927
Minus public sector deposits	187
Net domestic assets	3,942

2. In setting the ceiling for NDA the effects of changes in the exchange rate on the net foreign liabilities of the banking system, and on foreign currency liabilities which are included in quasi-money, are excluded by applying the necessary valuation adjustment (cumulative from end-December 1983) to the relevant data. It is understood that the foreign exchange proceeds of any special assistance will be shown both as an asset and a foreign exchange liability of the National Bank of Yugoslavia.

3. It is agreed that NDA for the end of December 1984 shall not exceed Din 4,633 billion compared with the level of Din 3,942 billion at the end of December 1983. Further, the authorities will ensure that NDA will not exceed the ceilings established in the attached Table 1.

ANNEX V

Table 1. Yugoslavia: Credit Ceilings

(In billions of dinars)

		Net Domestic Assets of the Banking System
1984	January-June 1/	4,117
	June 2/	4,239
	July-September 1/	4,378
	September 2/	4,410
	October-December 1/	4,570
	December 2/	4,633

1/ Average of end of month data.

2/ End-month data.

4. Any modifications in the ceilings on net domestic assets that in the view of the Yugoslav authorities may become necessary will be reviewed with the Fund in the context of the consultation specified in paragraph 24 of the letter of intent.

Subject: Technical Note on Public Sector Revenue Ceiling

Public sector revenue for the purpose of this ceiling is defined to comprise revenue of sociopolitical communities plus revenue for collective consumption, which totaled Din 1,172.553 billion in 1983. Cumulative quarterly limits on public sector revenue will apply for the periods shown below and will be calculated such that the percentage increase in public sector revenue over the corresponding period of the preceding year will be no more than 85.0 percent of the percentage increase in the retail price index over the same length of time but with a lag of one quarter, as shown below. A margin of error of Din 2.0 billion will be acceptable.

	Periods for which the Percentage Increases in Public Sector Revenue and the Retail Price Index shall be Calculated	
	Public Sector Revenue	Retail Price Index
Second quarter	$\frac{\text{Jan.-June 1984}}{\text{Jan.-June 1983}}$	$\frac{\text{Average (6 mos. to Mar. 1984)}}{\text{Average (6 mos. to Mar. 1983)}}$
Third quarter	$\frac{\text{Jan.-Sept. 1984}}{\text{Jan.-Sept. 1983}}$	$\frac{\text{Average (9 mos. to June 1984)}}{\text{Average (9 mos. to June 1983)}}$
Fourth quarter	$\frac{\text{Jan.-Dec. 1984}}{\text{Jan.-Dec. 1983}}$	$\frac{\text{Average (12 mos. to Sept. 1984}}{\text{Average (12 mos. to Sept. 1983}}$

ANNEX VII

Subject: Technical Note on the Net Assets of the Public Sector with the Banking System and the Blocking of Excess Revenue of the community of Interest for Foreign Economic Relations in the National Bank of Yugoslavia

1. The net assets of the public sector with the banking system are defined as total deposits of the Federal Government, other sociopolitical communities and communities of interest for collective consumption with the national banks and basic and associated banks, minus credits (including purchases of bonds and notes) extended by these banks to the said public sector entities. Excess public sector revenue blocked in the National Bank of Yugoslavia in 1983 and after is included in the assets of the public sector. The net asset position of the public sector with the banking system is calculated to equal the sum of the following items in the monetary survey:

	End-December 1983 (In billions of dinars)
1. Deposits of Federal government, other sociopolitical communities and communities of interest for collective consumption with NBY	22.3
2. Excess public sector revenue blocked in accounts with the NBY (excluding deposits of citizens)	4.2
3. Deposits of Federal Government, other sociopolitical communities and communities of interest for collective consumption with basic and associated banks	164.3
4. = (1 + 2 + 3) Total public sector deposits	190.8

5.	NBY credit (including bonds) to Federal Government	83.3
6.	NBY credit (including bonds) to other sociopolitical communities and communities of interest for collective consumption	8.4
7.	Basic and associated bank credit (including bonds) to the Federal Government, other sociopolitical communities and communities of interest for collective consumption	41.7
8.	= (5 + 6 + 7) Total public sector credit	133.4
9.	= (4 - 8) Net asset position of the public sector with the banking system	57.4

2. It is agreed that for 1984 payments from the Community of Interest for Foreign Economic Relations (CIFER) to export producers will be limited as follows. For the customs duty drawback on export production and for subsidies through agricultural funds, rates set in relation to exports will remain unchanged from 1983. Rebates for taxes and contributions out of personal and enterprise incomes, as well as rebates for gasoline coupons for tourists, will be abolished at the end of September 1984. Also, rates of rebates for transportation costs will be halved at the end of September 1984, and subsidies for advertising abroad for tourism and industry will be reduced from 1 percent to o.5 percent of the value of exports by January 1, 1985. Further, it is understood that 59.7 percent of all customs duties and import fees will continue to be credited to the CIFER. Excess revenue of the CIFER will be transferred to the Federal Government's blocked account with the National Bank of Yugoslavia and thus contribute to the increase in the net asset position of the public sector with the banking system.

3. It is agreed that the net asset position of the public sector with the banking system at the end of December 1984 shall be no less than Din 97 billion, compared with Din 57 billion at the end of December 1983. Further, the authorities will ensure that the net position of the public sector with the banking sector shall be no less than Din 6o billion at the end of June 1984, nor less than Din 85 billion at the end of September 1984.

ANNEX VIII

Subject: Technical Note on External Borrowing Limits

In 1984 disbursements on loans with original maturities of more than one year and up to and including 12 years will be limited to a maximum of US$3.5 billion of which no more than US$1.8 billion will be loans with original maturities of up to and including 5 years. Net drawings on short-term credits with an original maturity of up to and including one year will be limited to US$0.5 billion. The limits on all maturities include loans contracted by commercial banks and loans contracted directly or guaranteed by the National Bank of Yugoslavia or any other public sector entity and also include refinancing under multilateral exercises of maturities due in 1984.

ANNEX IX

Subject: Technical Note on the Balance of Payments Test

1. The aim of the program is to achieve an increase in the combined convertible external reseves of the National Bank of Yugoslavia and the commercial banks of at least US$5oo million during 1984. Given the seasonal pattern of the receipts from services and to some extent from exports, the balance of payments is likely to record an overall deficit during the first half of 1984. Nevertheless, foreign reserves as defined below, and adjusted for any increase in short-term debt, which reached the level of US$1,622 million at the end of 1983, will not be allowed to fall below the level of US$1,5oo million at the end of June 1984 and shall increase to at least US$1,8oo million by the end of September 1984, and to at least US$2,122 million by the end of December 1984.

2. Convertible external reserves are defined in the following way:

	(In millions of U.S.dollars; end-December 1983)
National Bank of Yugoslavia ...	
Reserve position in the Fund	55.o
Holdings of SDRs	--
Gold 1/	78.4
Securities	6o.7
Foreign exchange	86o.5
Total	1,o54.6
Foreign assets of commercial banks	567.o
Total foreign reserves of the banking system	1,621.6

1/ Valued at US$42.22 per ounce.

ANEX IX

3. For the purpose of the calculation of foreign reserves in 1984, any net increase in short-term debt of the banking system with an original maturity of up to and including one year during the period December 31, 1983 to the date in question will be excluded. Short-term debt of the banking system is defined as the sum of short-term debt of the NBY, which amounted to US$176 million on December 31, 1983, and short-term debt of the commercial banks, which amounted to US$964 million on December 31, 1983.

March 27, 1984

Dear Mr. State Secretary:

I know that your schedule will be extremely busy this next few days but I wanted nevertheless to write to thank you for the extremely effective way in which you chaired the meeting on Yugoslavia. We are very conscious of the care which went into the organization of the meeting and we are very pleased with its results. I should add that I am very conscious of the debt which we owe you in this regard.

I very much hope that despite your retirement our paths will cross from time to time, perhaps in connection with another Yugoslav meeting! Lastly may I assure you that if indeed during the course of the year we regard another meeting as helpful we will write to your Minister asking if we can make use of your experience in this regard.

Yours sincerely,

L.A. Whittome
Director
European Department

State Secretary Raymond Probst
Ministry of Foreign Affairs
3003 Berne
Switzerland

bcc: Mr. Schmitt
Mr. Boorman

INFORMATION COPY

The Managing Director

March 27, 1984

L.A. Whittome

Yugoslavia Meeting in Geneva

Mr. Schmitt, Mr. Mentré, Mr. Guetta, and I attended a "friends of Yugoslavia" meeting in Geneva on March 24 chaired by State Secretary Probst. On the previous day we had visited Berne to brief Mr. Probst.

The new program was widely welcomed especially by the U.K. and U.S. There was a general air of satisfaction even optimism though we warned explicitly of the dangers surrounding prices and capital flows. We were able to ensure that the communique, which indeed we drafted, made a specific reference to the fact that the countries attending were satisfied that the capital flows that underlay the Fund's projections were assured--indeed it is probable that they are overassured.

The Yugoslav's extreme sensitiveness on the foreign exchange allocation issue was again prominent but though they insisted that a reference to it should be deleted from the communique we were able to persuade them and the meeting, that the point should be the subject of a letter from Probst to Smole. This was drafted by us and signed. I attach a copy of the communique which was issued.

Attachment

cc: The Deputy Managing Director
Mr. Collins

bcc: Mr. Schmitt
Mr. Boorman

CHAIRMAN'S SUMMING UP

c Press Communiqué

1. Representatives of Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Italy, Japan, Kuwait, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States met in Geneva on March 24, 1984 under the chairmanship of State Secretary Raymond Probst. The Yugoslav delegation was led by Mr. Janko Smole, member of the Federal Executive Council. Representatives of the International Monetary Fund and the World Bank also attended the meeting. The meeting reviewed economic developments in Yugoslavia. Co-operating Governments confirmed their readiness to act in support of the efforts of the Yugoslav authorities aiming at further improvement of the balance of payments and reserve situation.

2. Participants were encouraged by the success of the stabilisation effort of Yugoslavia and in particular by the evolution of the trade balance with the convertible currency area in 1983 and the first two months of 1984. They welcomed the additional measures contemplated in 1984 and embodied in a proposed stand-by arrangement with the IMF, which has been submitted to the Executive Directors of the IMF for decision before the end of April. They considered that the progress made in improving the performance of the economy and the

further steps now being taken should lead to a rapid return to normal trade and credit relations.

3. Participants noted the proposed arrangements between Yugoslavia and foreign commercial banks. After reviewing experience under the Berne agreement, they confirmed their willingness, as soon as final approval of the stand-by arrangement for 1984 has been given by the Board of the IMF, to restructure for a 7 year period, including a 4 year grace period, 100 percent of maturities of principal falling due in 1984. This restructuring will apply to credits extended by Governments or guaranteed by them, having an original maturity of more than one year, pursuant to contracts conluded before December 2nd, 1982. The Yugoslav authorities confirmed that interest due and all non-consolidated maturities will be paid on due dates.

4. Participants welcomed the intentions expressed about the availability, in present circumstances, of guarantees and export credits during 1984. These included continued short-term cover, medium and long-term credits under agreements made before the Berne package (where applicable), the undisbursed portions of the Berne commitments, and any new credits available. Participants were satisfied that the sums in prospect, together with the other forms of assistance discussed at the meeting, were sufficient to provide the balance of payments financing envisaged in the projections which underlay the proposed IMF programme.

Meeting of the Coordinating Group on Yugoslavia

Draft Annotated Agenda

1. Report on discussions held in the two working groups
(Paris meetings, January 11 and 12, 1984)

   a. Group 1 (debt issues) : refinancing of medium - and long-term maturities guaranteed by or falling due to governments in 1984, contemplated timetable (representatives of France)

   b. Group 2 : carryover into 1984 of the 1983 Berne package, assessment of Yugoslavia's balance of payments and reserve needs (Fund representatives)

2. Status of negotiations between the Fund and Yugoslavia
(Yugoslav and Fund representatives)

   a. Balance of payments 1984

   b. Recent economic developments and outlook for 1984

   c. Letter of intent

   d. Timetable contemplated for Board action

3. Medium-term prospects
(Yugoslavia, Fund, and World Bank representatives)

   a. Medium-term outlook

   b. Impact of the adjustment on enterprises and sectors, investment priorities

   c. Management of external finance and of foreign debt

4. Non-governmental financial flows

   a. World Bank lending, including possible cofinancing with commercial banks (Yugoslav and World Bank representatives)

   b. Lending by European institutions including possible cofinancing with commercial banks (Yugoslav and representatives of EC countries)

   c. Status of discussion with commercial banks : refinancing of medium- and long-term maturities falling due to banks in 1984, additional flows, short-term credits (Yugoslav representatives and IMF)

5. <u>Export credits</u>
(Governments' representatives)

- maintenance or expansion of existing short-term credit lines or guarantees in 1984

- projections of medium- and long-term export credits for Yugoslavia in 1984, beyond the carryover of the Berne package, with the following breakdown :

  a. Capital goods :

     (i) export credits under arrangements signed prior to the Berne agreement

     (ii) export credits under arrangements signed in 1983

     (iii) export credits under arrangements to be signed in 1984

  b. Commodities

  c. Intermediate goods, raw materials, spare parts

  These projections and possible terms and conditions should be discussed in relation with balance of payments prospects.

Administrative Matters

Telephone

There are six telephone cabins in the lobby of the conference building.

For local (Geneva) calls, dial "0" to obtain a line.

For long distance calls, ask the operator at the reception desk in the lobby of the conference building (please mention the code word "Conference Yugoslavia".

For all other administrative matters, contact

Mr. M. Peter
Mr. P. Fivat
Mr. E. Homberger
Ms. S. Rindlisbacher
Ms. M. Simon
Ms. D. Hunziker
Ms. C. Walther

Yugoslavia - Notes for the Geneva Meeting on March 24, 1984

Timing of Board discussion of the Yugoslav stand-by arrangement and other elements of the financial package

The Board paper will be issued on March 23, 1984 and the Board discussion is tentatively scheduled for April 20, 1984. However, the first purchase under the arrangement will take place only after May 1, 1984, the date by which certain measures are to be implemented. The measures to be introduced include: (i) the lifting of the price freeze and the increase in the share of output free of price control; (ii) the adjustment of railway and electricity tariffs and prices of natural gas, oil, and oil derivatives to bring them above certain minimum levels in real terms; (iii) the closing of 40 percent of the present gap between interest rates on selected deposits and a target rate calculated to make interest rates positive in real terms; a similar adjustment will be made to the discount rate and other lending rates of the National Bank of Yugoslavia; and (iv) a 4 percent real effective depreciation of the dinar compared with the targeted end-March 1984 level.

It is anticipated that other events relevant to the financial arrangements for Yugoslavia for 1984 will be scheduled approximately as follows:

March 26: Commercial banks will be asked to approve an extension of the standstill period from end-March to end-June 1984; at the same time, they will be informed of the proposed terms and conditions of the 1984 refinancing package.

Early May: Governments would, in connection with a meeting of the "Paris Club" sign the agreed minutes for the refinancing of debt maturities due in 1984.

Late May-mid-June: loan agreements and individual promissory notes with commercial banks would be signed.

Yugoslavia - Notes for the Geneva Meeting on March 24, 1984

1. Recent developments

a. External accounts

The c/a balance with convertible area improved more than programmed in 1983: to a surplus of US$300 million instead of a deficit of US$500 million. (Deficit in 1982: US$1.6 billion or 2 1/2 percent of GSP.) The c/a with the nonconvertible area was in balance.

There was a substantial capital outflow in 1983 and, instead of a buildup of reserves of about US$600 million as programmed, a decline of US$55 million was recorded. This was mainly on account of short-term capital outflows and errors and omissions; the latter item alone swung from a surplus of US$660 million in 1982 to a deficit of more than US$1,230 million. (Reasons: nonpayment of export receipts from LDCs (mainly Iraq), extension of the period of repatriation of export proceeds from 60 to 90 days, and, more importantly, negative real interest rates in Yugoslavia.)

Disbursments of capital flows in 1983 are shown in Table 2.

b. Domestic economy in 1983

There was a substantial decline in domestic demand. Real wages in the socialized sector fell by 10 percent (25 percent over the last four years). Private consumption, however, fell by only 2 percent. (Incomes apparently remained buoyant in nonsocialized sector.) Gross fixed investment declined for the fourth year in a row. Total GSP fell by 2 1/2 percent.

Industrial production rose by more than 1 percent. Inventories, even of imported goods, increased. There is an apparent conflict between these latter developments and the figures for imports, (a decline of 11 percent from the nonconvertible area and 5 percent total). There may have been

Underreporting of imports (possibly related to the foreign exchange allocation system).

Retail prices rose by 58 1/2 percent during the year, compared with 31 percent during 1982.

c. Financial policies in 1983

(1) The real effective exchange rate depreciated by 25 percent during the year.

(2) Public sector revenue fell by 5 percent in real terms and there was a small public sector surplus.

(3) The stock of real money declined by 12 percent, and real domestic credit by 17 percent.

(4) Interest rates for deposits were raised in February together with the discount rate and selective lending rates of NBY. The latter were raised again in July, but the scheduled further increases for deposit rates at the end of the year were not implemented. Rates became increasingly negative during the year.

2. Balance of payments and reserves in 1984

Balance of payments developments. (Table 1 is to be distributed at the meeting). Main features: c/a target of US$500 million. (Yugoslav estimate somewhat higher, US$800 million). Balance on c/a with nonconvertible area. Balance on capital account. Consequently, there will be a buildup of reserves of US$500 million. A reserves test is incorporated in the program. Need for buildup of reserves during 1984:

(i) reserves at the end of 1983 equivalent to only 10 weeks of merchandise imports from the convertible area;

(ii) normal seasonal needs in first half of 1985;

(iii) some US$800 million in short-term debt (rolled over in January 1983) falls due in January 1985.

Capital inflows illustrated in Table 2 (to be circulated at the meeting). It is important that there be no slippage in these identified capital flows because of tight reserve position.

"Errors and omissions" need to be limited to the figure shown in Table 1. There is much uncertainty about this figure. (Again illustrates the need for no slippage in implementing the financing package. However, this point cannot be pressed too hard, since the governments could then argue that the program negotiated is unsatisfactory.)

3. Interest rate and Exchange rate adjustments in 1984.

Final

03/24/1984

List of Participants

Presidency:	Mr. Raymond PROBST, Secrétaire d'Etat Directeur de la Direction politique Département fédéral des affaires étrangères
	Mr. Jacques FAILLETTAZ, Ministre Chef du Service économique et financier Département fédéral des affaires étrangères
	Mr. Eric PFISTER Chef adjoint du Service économique et financier Département fédéral des affaires étrangères
	Mr. André FAIVET Chef adjoint du Service économique et financier Département fédéral des affaires étrangères
	Mr. Markus PETER, Collaborateur diplomatique Service économique et financier Département fédéral des affaires étrangères
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	Mr. Enrico HOMBERGER, Assistant consulaire Service économique et financier Département fédéral des affaires étrangères
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	Mr. Günter BIRBAUM, Ministre Représentant permanent adjoint à la Mission permanente de l'Autriche auprès de l'Office des Nations Unies à Genève

Belgium:	Mr. Pierre KNAEPEN, Conseiller Office national du Ducroire
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	Mr. Laurence BROWN, Aera Economist Country Assessment Department Export Development Corporation
	Mr. Donald P. McLENNAN, Counsellor Canadian Embassy Berne
	Mr. Ross GLASGOW International Financial and Investment Affairs Division Department of External Affairs
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	Mr. Palle Brix KNUDSEN, Head of Division Export Credit Council Ministry of Industry
Finland:	Mr. Erik HAGFORS, Assistant Director Trade Policy Department Ministry of Foreign Affairs

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	Mr. Pierre de LAUZUN, Chef de bureau Service des affaires internationales Direction du trésor Ministère de l'économie, des finances et du budget
	Mr. Dominique BAZY, Secrétaire des affaires étrangères Affaires économiques et financières Ministère de l'économie, des finances et du budget
Germany:	Mr. Jürgen KUEHN, Ministerialdirigent Chef de la subdivision des affaires économiques extérieures multilatérales Ministère de l'économie
	Mr. Gehrhard HENZE, Vortragender Legationsrat I Referatsleiter Ministère des affaires étrangères
	Mr. Malte EHRIG, Regierungsdirektor Referatsleiter Ministère des finances
	Mr. Michael von KORFF, Referent Ministère de l'économie
Italy:	Mr. Giovanni MINGAZZINI, Conseiller Chef de l'office II, Direction générale des affaires économiques Ministère des affaires étrangères
	Mr. Mario GERBINO, Premier Dirigeant, Chef adjoint du Cabinet du Ministre du commerce extérieur
	Mr. Fernando CARPENTIERI, Directeur de section Ministère du trésor

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Japan:	Mr. Yuji NAKAMURA, Directeur Division Europe orientale Ministère des Affaires Etrangères
	Mr. Akio HANANO, Conseiller Ambassade du Japon, Berne
	Mr. Kozo FUKUMOTO, Deuxième Secrétaire Ambassade du Japon, Belgrade
Kuwait:	Mr. Ibrahim SALLOUM, Manager Kuwait Foreign Trading Contracting and Investment Company
	Mr. Ahmad ABDUL QADER MOHAMAD, Kuwait Foreign Trading Contracting and Investment Company
Netherlands:	Mr. J. LINTJER, Principal Administrator Directorate Export Credit Insurance Ministry of Finance
	Mr. J.M. CORIJN, Principal Administrator Directorate for economic cooperation Ministry of Foreign Affairs
	Mr. H.F. de JONG, Collaborator Directorate Foreign Financial Relations Ministry of Finance
	Mr. H.M. van LEUVEN, Netherlands Credit-Insurance Company, Amsterdam
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	Mr. Rolf NAESS, Chef de division Ministère du commerce

Sweden:	Mr. Ulf DINKELSPIEL, Ambassadeur Ministère des affaires étrangères
	Mr. Rutger PALMSTIERNA, Chef de section Section consolidation des dettes et garantie des crédits à l'exportation Secrétariat d'état au commerce Ministère des affaires étrangères
	Mr. Lennart SKARP Chief Country Policy Adviser for EKN
Switzerland:	Mr. Benedikt von TSCHARNER, Ambassadeur Délégué aux accords commerciaux Office fédéral des affaires économiques extérieures Département fédéral de l'économie publique
	Mr. Hans ITH Chef de la Section monnaie et économie Département fédéral des finances
	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. Peter MOUNTFIELD, Under Secretary Treasury
	Mr. Andrew LANCE Eastern European and Soviet Department Foreign and Commonwealth Office
	Ms. Eileen HARDING, Assistant Secretary Export Credits Guarantee Department
	Mr. Cyril DURNING Export Credits Guarantee Department
	Mr. Frank HALL, Adviser Bank of England

United States of America:	Ms. Elinor G. CONSTABLE, Senior Deputy Assistant Secretary Economic and Business Affairs State Department
	Mr. James G. WALLAR, Financial Attaché Embassy of the United States, Berne
Yugoslavia:	Mr. Janko SMOLE Member of the Federal Executive Council
	Mr. Tarik AJANOVIC, Assistant to the Federal Secretary of Foreign Affairs
	Mr. Cvitan DUJMOVIC, Assistant to the Federal Secretary of Finance
	Mr. Joze KOROSEC, Vice-Governor National Bank of Yugoslavia
	Mr. Sulejman REDZEPAGIC, Ambassador Embassy of Yugoslavia, Berne
	Mr. Kazimir VIDAS, Ambassador to the United Nations in Geneva
	Mr. Miodrag VUJOVIC Senior Adviser to Mr. Janko Smole
	Mr. Dinko TAJMIN. First Councellor Embassy of Yugoslavia, Berne
IMF:	Mr. Alan WHITTOME, Director European Department
	Mr. Hans SCHMITT, Senior adviser European Department
	Mr. Paul MENTRE DE LOYE, Consultant European Department
	Mr. Aldo GUETTA, Director Office in Europe
IBRD:	Mr. Franz H. KAPS, Senior Loan Officer

A G E N D A

Saturday, March 24, 1984

10.15 a.m.:	Plenary Meeting of the Representatives of the Creditor Countries, Yugoslavia, IMF and IBRD Room A
01.15 p.m.:	Luncheon for all participants offered by the Chairman at the Geneva International Conference Center (CICG), (Rue de Varembé 15) Heads of Delegations: in the Restaurant Other Members of Delegations: on the Gallery
02.45 p.m.:	Resumption of Plenary Meeting

End of Meeting: Open

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

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March 24, 1984

YUGOSLAVIA

The attached tables reflect the figures on which the stabilization program for 1984 is based.

Table 1. Yugoslavia: Balance of Payments with the Convertible Currency Area, 1982-84 1/

(In millions of U.S. dollars)

	1982	1983 Revised estimate	1984 Staff Proj.
Exports, f.o.b.	5,526	6,271	7,000
Imports, c.i.f.	9,069	8,069	8,700
Trade balance	-3,543	-1,798	-1,700
Workers' remittances (net)	1,663	1,610	1,550
Tourism (net)	704	875	1,000
Interest payments (net)	-1,692	-1,489	-1,650
Other (net)	1,266	1,101	1,300
Services (net)	1,941	2,097	2,200
Current balance	-1,602	299	500
Medium- and long-term capital	-126	1,140	250
Loans received (net)	51	1,297	450
Drawings	(1,815)	(3,660)	(3,195)
Repayments	(-1,764	(-2,363)	(-2,745)
Loans extended (net)	-177	-157	-200
Short-term capital through the banking system	-506	-670	--
Other short-term capital, errors and omissions	659	-1,234	-250
Overall balance	-1,575	-465	500
Use of Fund credit	563	410	10
Purchases	608	590	293
Repurchases	45	180	283
Reserve movements (increase -)	1,012	55	-510

2.5 2.5

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

1/ Calculated on the basis of statistical exchange rates of currencies to the U.S. dollar which may result in significant over- or underestimation of balance of payments flows, depending on currency composition and actual movement of currencies against the dollar. Staff calculations suggest that trade flows are underestimated by some 2 percent in 1982 and may be overestimated by a similar amount in 1983.

3/19/84

Table 2. Yugoslavia: Drawings on Medium- and Long-term Debt in Convertible Currency by Creditor

(In millions of U.S. dollars)

	1983 Estimate	1984 Projection
Government packages	796	1,240
Berne	796	390
Refinancing	(304)	(3)
New financial credits	(132)	(40)
Suppliers' credits	(360)	(347)
Geneva	...	850
Refinancing	(...)	(700)
Suppliers' credits	(...)	(150)
Commercial bank package	1,550	1,200 1.3?
Refinancing	950	1,100
New financing	600	100
IBRD	280	505
Regular facilities	260	250
SAL	20	255
Other multilateral lenders: IFC, EIB and Eurofima	60	50
Suppliers' credits outside Government packages	974	200
Subtotal	3,660	3,195
IMF	590	293 1/
Total	4,250	3,488

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

1/ Total projected purchases under the stand-by arrangement are equivalent to SDR 370 million, but the final purchase from the Fund will not take place until February 1985.

3/19/84

Table 3. Yugoslavia: Repurchase Obligations and Charges Payable to the IMF

(In millions of SDRs)

	Repurchases			Charges
	Total	Present obligations 1/	Proposed stand-by	
1984	269.31	269.31	--	205.3
1985	322.15	322.15	--	204.1
1986	362.50	362.50	--	173.7
1987	385.76	361.38	24.38	132.5
1988	444.37	322.50	121.87	86.9
1989	360.33	239.46	120.63	42.3
1990	155.39	97.88	57.51	13.2
1991	40.01	--	40.01	2.7
1992	5.63	--	5.63	0.2
Total	2,345.18	1,975.18	370.00	860.9

Source: Fund staff estimates.

1/ Including repurchases under the Compensatory Financing Facility of SDR 103.9 million in 1984 and SDR 17.3 million in 1985.

Table 4. Yugoslavia: Medium-Term Scenario 1983-90 1/

(In millions of U.S. dollars)

	1983	1984	1985	1986	1987	1988	1989	1990
1. Current account balance	299	500	700	500	450	450	400	350
2. Increases in reserves (-)	55	-510	-200	-200	-200	-200	-200	-200
3. Amortization of medium- and long-term debt outstanding at end-1983	-2,363	-2,745	-2,385	-2,770	-2,450	-1,720	-880	-410
4. Amortization of new borrowing	--	--	-167	-300	-450	-1,192	-2,214	-2,930
5. Short-term capital through banks	-670	--	-400	100	100	100	100	--
6. Loans extended and errors and omissions	-1,391	-450	-200	-200	-200	-200	-200	-200
7. Net purchases from the Fund	410	10	-243	-380	-404	-465	-377	-163
8. Gross medium- and long-term borrowing (= 1+2+3+4+5+6+7)	3,660	3,195	2,895	3,250	3,154	3,227	3,371	3,553
Of which: Additional borrowing on commercial terms	(600)	(--)	(365)	(1,795)	(1,804)	(1,877)	(2,021)	(2,203)
9. Total debt outstanding at year end (= previous year's level +8+3+4+5+7)	19,525	19,985	19,685	19,585	19,535	19,485	19,485	19,535
Memorandum items:								
Export volume growth (percent change)	13.6	9.4	6.2	4.0	4.0	4.0	4.0	4.0
Interest payments (millions of US$)	1,489	1,650	1,652	1,629	1,624	1,621	1,620	1,624
Debt service ratio (percent of foreign exchange earnings)	32.8	34.9	31.9	33.1	30.4	29.0	27.8	26.4
Ratio of total debt to GSP (percent)	45.2	47.7	43.0	38.9	35.8	33.0	30.5	28.3
Real GSP growth (percent change)	-2.5	0.6	5.1	5.7	4.2	4.1	4.0	3.9
Amortization payments on refinancing packages (millions of US$)	--	--	--	530	530	1,044	1,121	857
1983 package 2/	--	--	--	530	530	530	264	--
1984 package	--	--	--	--	--	514	514	514
1985 package 3/	--	--	--	--	--	--	343	343

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

1/ Based on a small computational model. The calculations are illustrative as they depend crucially on the underlying assumptions which, over the medium term, are ineviatably somewhat arbitrary. The main assumptions are: (i) that the external debt will be kept approximately at the 1983 level in nominal terms; (ii) unitary import elasticity; and (iii) the current account scenario shown in the table and the growth of export volume and of international reserves shown in the memorandum items to the table.

2/ Including US$600 million in new money from banks in 1983, but excluding financial credits and suppliers' credits under the Berne arrangement.

3/ Hypothetical example.

3/22/84

Table 5. Yugoslavia: Gap Analysis Sheet for 1984

(In millions of U.S. dollars)

A. Uses of funds				
Medium- and long-term debt repayments (including interest)				-4,395
Of which: 1/	Principal	Interest	Total	
Friends	700	300	1,000	
Other Governments	100	50	150	
Banks	1,400	1,000	2,400	
Other	545	300	845	
Loans extended				-200
Other short-term capital, errors and omissions				-250
Total requirements				-4,845
B. Sources of funds				
1. Before negotiation				
Current account (excluding interest)				2,150
IMF credit (net)				10
Berne package (1983)				
Refinancing				3
Financial credits				40
New financing				347
IBRD				
Regular facilities				250
SAL				255
Other multilateral (IFC, EIB, and Eurofima)				50
Total before negotiation				3,105
Gap				-1,740
2. Consolidated and new financing				
Friends (100 percent of principal, 0 percent of interest)				850
Banks (100 percent of principal, 0 percent of interest)				1,200
Other governments) Other)				200
Consolidation subtotal				2,250
Increase in reserves (-)				-510

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

1/ Estimated.

Office Memorandum

cc: JB

OK by me with a few suggestions. Do you really need several weeks of his time in W'ton? I would have guessed that a week before going and perhaps two weeks after return or even occasional three days periods after his return would be ample. ? (I am thinking of family life, other commitments etc.).

[initials] 26/3

To: Mr. Whittome
Mr. Schmitt

March 23, 1984

From: Jack Boorman [initials]

Subject: Yugoslavia - Study of Foreign Exchange Allocation System

I spoke with Ms. Koenig on Wednesday, March 21 about the arrangements that might be made to secure the services of a commercial banker as a consultant to the staff in its study of the foreign exchange system in Yugoslavia. She expressed the view that all the formal arrangements for such a consultancy should be made through CBD and cited the examples of such arrangements for MED and ASD, (the latter of which I am completely familiar with.) She indicated it would be normal practice for salary and all expenses to be paid by the Fund so as to assure the full commitment of the consultant to the assignment.

Ms. Koenig raised the question as to whether the appropriate person would be a commercial banker or a central banker. I indicated the usefulness of involving the ICC more directly, which argued for a commercial banker, and noted that my view on the talents required would suggest the same. I indicated, as well, that you had already approached Mr. Dobrich on the subject and had received a generally positive response. This all seemed quite acceptable to her, but she noted that CBD's involvement would call for some formal interview and approval process for any candidate. She noted that arranging the logistics of such a consultancy through CBD takes, on average, about two months.

Why must it take

In general, Ms. Koenig was quite positive and optimistic about the project. She indicated that she would need to review the letter of intent to determine whether for CBD purposes a sufficiently clear request for assistance from the Yugoslav authorities was contained therein.

She asked me to more clearly define the project and the role of the consultant, in particular. I have done this in the attached note and draft terms of reference which she would intend to use as the basis for her recommendations in this matter to Mr. Kaul. I would appreciate your review of the attached.

Att.

Herrn Minister J. Faillettaz W 262

First draft

22/03/1984

List of Participants

Presidency:	Mr. Raymond PROBST, Secrétaire d'Etat Directeur de la Direction politique Département fédéral des affaires étrangères
	Mr. Jacques FAILLETTAZ, Ministre Chef du Service économique et financier Département fédéral des affaires étrangères
	Mr. Eric PFISTER Chef adjoint du Service économique et financier Département fédéral des affaires étrangères
	Mr. André FAIVET Chef adjoint du Service économique et financier Département fédéral des affaires étrangères
	Mr. Markus PETER, Collaborateur diplomatique Service économique et financier Département fédéral des affaires étrangères
	Mr. Paul FIVAT, Collaborateur diplomatique Service économique et financier Département fédéral des affaires étrangères
	Mr. Hans-Rudolf HODEL, Collaborateur diplomatique Service économique et financier Département fédéral des affaires étrangères
	Mr. Enrico HOMBERGER, Assistant consulaire Service économique et financier Département fédéral des affaires étrangères
Austria:	Ms. Friederike WEISSBACHER, Oberrat Directeur adjoint Division pour la promotion et le financement des exportations Ministère des Finances
	Mr. Günter BIRBAUM, Ministre Représentant permanent adjoint à la Mission permanente de l'Autriche auprès de l'Office des Nations Unies à Genève

Belgium:	Mr. Paul KNAEPEN, Conseiller Office national du Ducroire
Canada:	Mr. John COLEMAN, Director International Programs Division Department of Finance
	Mr. Laurence BROWN, Aera Economist Country Assessment Department Export Development Corporation
	Mr. Donald P. McLENNAN, Counsellor Canadian Embassy Berne
	Mr. Ross GLASGOW International Financial and Investment Affairs Division Department of External Affairs
Denmark:	Mr. Carl Johan LIEBE, Head of Division Commercial Department Ministry of Foreign Affairs
	Mr. Palle Brix KNUDSEN, Head of Division Export Credit Council Ministry of Industry
Finland:	Mr. Erik HAGFORS, Assistant Director Trade Policy Department Ministry of Foreign Affairs

France:

Mr. Philippe JURGENSEN, Directeur adjoint
Chef du Service des affaires internationales
Direction du trésor
Ministère de l'économie et des finances

Mr. Pierre de LAUZUN, Chef de bureau
Service des affaires internationales
Direction du trésor
Ministère de l'économie et des finances

Mr. Dominique BAZY, Secrétaire des affaires étrangères
Affaires économiques et financiers
Ministère de l'économie et des finances

Germany:

Mr. Jürgen KUEHN, Ministerialdirigent
Chef de la subdivision des affaires économiques extérieures multilatérales
Ministère de l'économie

Mr. Gehrhard HENZE, Vortragender Legationsrat I
Referatsleiter
Ministère des affaires étrangères

Mr. Malte EHRIG, Regierungsdirektor
Referatsleiter
Ministère des finances

Italy:

Mr. Giovanni MINGAZZINI, Conseiller
Chef de l'office II, Direction générale des affaires économiques
Ministère des affaires étrangères

Mr. Fernando CARPENTIERI, Directeur de section
Ministère du trésor

Mr. Mario GERPINO, Dirigeant supérieur
Ministère du commerce extérieur

./.

Japan:	Mr. Yuji NAKAMURA, Directeur Division Europe orientale Ministère des Affaires Etrangères
	Mr. Ako HANANO, Conseiller Ambassade du Japon, Berne
	Mr. Kozo FUKUMOTO, Deuxième Secrétaire Ambassade du Japon, Belgrade
Kuwait:	Mr. Ibrahim SALLOUM, Manager Kuwait Foreign Trading, Contracting and Investment Company
Netherlands:	Mr. J. LINTJER, Principal Administrator Directorate Export Credit Insurance Ministry of Finance
	Mr. J.M. CORIJN, Principal Administrator Directorate for economic cooperation Ministry of Foreign Affairs
	Mr. H.F. de JONG, Collaborator Directorate Foreign Financial Relation Ministry of Finance
	Mr. H.M. van LEUVEN, Netherlands Credit-Insurance Company, Amsterdam
Norway:	Mr. Nils STAWA, Chef de section Section question bilatérales et coordination Direction des affaires économiques Ministère des affaires étrangères
	Ms. Bjorg SELAAS Ministère du commerce

Sweden:	Mr. Ulf DINKELSPIEL, Ambassadeur Ministère des affaires étrangères
	Mr. Rutger PALMSTIERNA, Chef de section Section consolidation des dettes et garantie des crédits à l'exportation Secrétariat d'état au commerce Ministère des affaires étrangères
	Mr. Lennart SKARP Chief Country Policy Adviser for EKN
Switzerland:	Mr. Benedikt von TSCHARNER, Ambassadeur Délégué aux accords commerciaux Office fédéral des affaires économiques extérieures Département fédéral de l'économie publique
	Mr. Hans ITH Chef de la Section monnaie et économie Département fédéral des finances
	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. Peter MOUNTFIELD, Under Secretary Treasury
	Mr. Andrew LANCE Eastern European and Soviet Department Foreign and Commonwealth Office
	Ms. Eileen HARDING, Assistant Secretary Export Credits Guarantee Department
	Mr. Frank HALL, Adviser Bank of England

United States of America:	Ms. Elinor G. CONSTABLE, Senior Deputy Assistant Secretary Economic and Business Affairs State Department
	Mr. Jim WALLER, Financial Attaché Embassy of the United States, Berne
Yugoslavia:	Mr. Janko SMOLE Member of the Federal Executive Council
	Mr. Tarik AJANOVIC, Assistant to the Federal Secretary of Foreign Affairs
	Mr. Cvitan DUJMOVIC, Assistant to the Federal Secretary of Finance
	Mr. Joze KOROSEC, Vice-Governor National Bank of Yugoslavia
	Mr. Sulejman REDZEPAGIC, Ambassador Embassy of Yugoslavia, Berne
	Mr. Kazimir VIDAS, Ambassador to the United Nations, in Geneva
	Mr. Miodrag VUJOVIC Senior Adviser to Mr. Janko Smole
	Mr. Dinko TAJMIN. First Councellor Embassy of Yugoslavia, Berne
IMF:	Mr. Alan WHITTOME, Director European Department
	Mr. SCHMITT, Senior adviser European Department
	Mr. Paul MENTRE DE LOYE, Consultant European Department
IBRD:	Mr. Franz H. KAPS, Senior Loan Officer

Letter of State Secretary R. Probst
to Minister J. Smole

Dear Mr. Minister,

I would wish to emphasize a point deliberately not mentioned in my summing up but nonetheless considered important by many of the delegations at today's meeting. It is that they welcomed the intention to make further progress in improving the efficiency of the foreign exchange allocation system.

Yours sincerely,

Subject

Office Memorandum

TO : Mrs. Djeddaoui

DATE: March 22, 1984

FROM : Hans Schmitt HS

SUBJECT : Yugoslavia - Request for Stand-by Arrangement

Please find attached the Yugoslavia - Request for Stand-by Arrangement. Please note that a proposed decision appears on page 22.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, scheduled for April 20, 1984, they should contact Leif Hansen (58872) or Wayne Lewis (58863).

Att.

cc: CED

Office Memorandum

TO : Mr. Whittome

DATE: March 22, 1984

FROM : P. Mentré

SUBJECT : Geneva meeting - Yugoslav views

I was in Belgrade on March 19 and 20 to prepare the intergovernmental Geneva meeting. On the 19th, I had a meeting and a dinner with Messrs. Dujmovic, Korosec, Nicolic, Senior Advisor, Federal Planning Council, and Maradzole, Senior Advisor, Federal Secretariat of Finance. On the 20th, I had a 2-hour meeting with Mr. Smole, a one-hour meeting with Mr. Sukovic, and a closing session with Messrs. Dujmovic and Korosec.

1. Implementation of the financial package

We reviewed in detail with Mr. Dujmovic and Mr. Korosec the status of implementation of the financial package (see detailed report attached). Basically, the situation is as follows:

a. Commercial banks

A positive reply to the latest proposals of commercial banks should be sent by the Yugoslavs before the Geneva meeting, in conformity with the timetable projected by commercial banks. The reconciliation process is well under way.

b. Governments

All the bilateral agreements under the Berne package have now been signed with the exception of Finland, Sweden and Japan. Measures will be taken to speed up the use of the Berne credits. The Yugoslavs expect to use fully before the end of 1984 at least credits opened by Germany, Italy, France and Austria. These countries are probably also the most open to the idea of new medium-term credits for intermediate goods and spare parts.

As soon as the refinancing of maturities of principal falling due in 1984 has been endorsed by governments, which means hopefully in Geneva, the Yugoslavs will start bilateral discussions to reconcile figures and conclude bilateral implementing agreements.

c. World Bank

The full release of the SAL second tranche is expected in 1984, but the Yugoslav projections of likely 1984 disbursements on project loans are lower by $100 million than our projections based on World Bank figures.

d. EIB

It was confirmed that some of the projects financed by EIB credits were suffering delays. Internal decisions, notably on the domestic financing side, have to be reached before effective implementation. However, disbursements should start rapidly, at least on one project: railways.

meeting to be held in the second part of the year, for instance in October, after the mid-year review with the Fund. Such a meeting could also be used to start negotiations on a partial refinancing of maturities falling due in 1985. In that respect, Mr. Smole mentioned specifically the difficulties arising from the maturing on January 17, 1985, of the consolidated short-term credits granted to Yugoslavia by commercial banks.

On new money from banks, Mr. Smole and his associates expressed interest in the idea of an acceptance facility along the lines of what was done for Hungary. They were eager to see cofinancing operations with the World Bank and the EIB and they would ask Yugoslav banks to take the necessary initiatives. However, Mr. Dujmovic mentioned that, due to internal delays in the implementation of projects, effective disbursements under cofinancing agreements with commercial banks were unlikely in 1984.

3. Meeting with Mr. Sukovic

Mr. Sukovic confirmed that the letter of intent had been agreed by individual Republics and by the relevant committees of the Federal Assembly. As mentioned by him, a telex was sent in the afternoon to the Fund to confirm that the Federal Assembly had concurred in it. On the outcome of the Geneva meeting, he also stressed refinancing of maturities and carry-over into 1984 of the unused 1983 Berne credits. I again stressed continued access to medium-term credits for intermediate goods and spare parts.

Mr. Sukovic then asked me which were the issues on economic management in Yugoslavia the most likely to be raised by participants in the Geneva meeting. I said that it was extremely important to describe measures which have been taken or were contemplated to speed up the use of foreign credits, especially export credits under the Berne package and EIB loans, at a time when Yugoslavia was starting discussions with the EC on a new protocol. Mr. Sukovic said that amendments to the law on the use of external credits were under discussion with, as an ultimate goal, the use of such funds in the most economically justified way, but with less rigid links between imports and export commitments.

I also said that, like commercial banks in the March ICC meeting in London, governments could again stress the importance they attach to an improvement in the foreign exchange allocation system. Mr. Sukovic dealt at length with this subject. He said that, in accordance with the revised law, the reproduction needs had been established on the basis of real objective data on March 5 and that, henceforth, foreign exchange in excess of reproduction needs should be placed in the unified market. However, it appeared now that the automatic transfers by commercial banks which should have resulted from this action had not taken place and the Government was presently looking at the situation to ensure better full implementation of the existing legislation through adequate monitoring. Mr. Sukovic was aware that further progress could be justified and said that the Yugoslav Government was ready to see the report to be produced in June by the Study Group chaired by the IMF, with the help of external consultants. He stressed, however, that there was a balance to maintain between the preservation of autonomy, which is the essence of the self-management concept, and the fulfillment of obligations to the

Since, for the time being, the Yugoslavs are not including in their projections new money from governments or commercial banks, their figures on drawings on medium- and long-term debt in 1984 differ from ours (see attached table). I mentioned that our table had already been circulated to participants in the meeting and Mr. Dujmovic said he could accept our figure of $700 million for refinancing by governments and $350 million for new export credits. In addition, the Yugoslavs still consider that they should be able to reach a current account surplus of $800 million and were somewhat encouraged by trade figures in February. 1/ They agreed, however, that in view of uncertainties it would be counter-productive to mention that they were aiming at an increase in reserves by $1 billion.

2. Prospects for the Geneva meeting

Mr. Smole expected to get from the Geneva meeting a clear agreement on refinancing of medium- and long-term maturities in principal falling due in 1984 under the terms and conditions described in the Paris meeting. He was extremely disturbed by the idea of a new Paris meeting after Board action. I pointed out that it had been explicitly mentioned in the Group 1 Chairman's summing up. Mr. Dujmovic will be in Paris on the 23rd and Mr. Smole in Berne on the same day and they will try to convince the French and Swiss that the Geneva meeting should be final on this issue.

On export credits, Mr. Smole and Mr. Dujmovic were not recommending any effort to obtain precise pledges at the Geneva meeting. They recognized, however, that medium-term credits for intermediate goods, through a waiver of the formal Berne Union rules, would be extremely helpful and concurred in the view that a draft communiqué of the Geneva meeting should at least include the following elements: refinancing of maturities in principal; carry-over into 1984 of unused 1983 Berne credits; maintenance or extension of existing short-term credit lines; positive attitude on new export credits, on normal terms for capital goods and with medium-term maturities for intermediate goods. Mr. Smole also concurred in the view that there might be merit in the idea of reviewing developments in a

1/ Exports to the convertible currency area for the January-February 1984 period are higher by 15 percent than exports for the corresponding period in 1983 (staff projection for the year: 11.5 percent, Yugoslav projection for the year: 22 percent) and imports lower by 6 percent. The trade deficit for the first two months has been reduced from dinar 27 billion to dinar 5 billion. Total exports (including the non-convertible currency area) have increased by 5 percent and total imports declined by 5 percent.

Trade with the non-convertible currency area

(in millions of dinars)

	January-February 1983	January-February 1984
Exports	103,288	116,266
Imports	130,731	123,321
	27,443	5,055

society. A total centralization of foreign exchange would have negative effects on exports (a better allocation of foreign exchange could well lead to a reduction in total foreign exchange available) and overall social relations.

The atmosphere of the discussions was quite positive. We agreed with Mr. Smole that we would continue to be in contact in Berne and Geneva to prepare our discussion with the Swiss in Berne on the 23rd and with Mr. Smole in Geneva on the 24th. I have drafted the attached summing-up.

Attachments

cc: Mr. Schmitt
Mr. Hansen
Mr. Petersen

DRAFT CHAIRMAN'S SUMMING UP

1. Representatives of Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Kuwait, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States met in Geneva on March 24, 1984 under the chairmanship of State Secretary Raymond Probst to review economic developments in Yugoslavia and confirm their readiness to act in support of the efforts fo the Yugoslav authorities aiming at further improvement of the balance of payments and reserve situation. The Yugoslav delegation was led by Mr. Janko Smole, member of the Federal Executive Council. Representatives of the International Monetary Fund and the World Bank also attended the meeting.

2. Participants were encouraged by the evolution of the trade balance with the convertible currency area in 1983 and the first two months of 1984. They reviewed the adjustment efforts implemented in 1983 and welcomed the additional measures contemplated in 1984 and embodied in a stand-by arrangement with the IMF, submitted to the IMF Board for action before the end of April. [They stressed the need to make further progress towards greater efficiency of the foreign exchange allocation system.]

3. In view notably of the parallel action agreed between Yugoslavia and foreign commercial banks, and subject to approval by the Board of the IMF of the stand-by arrangement for 1984, participants agreed that 100 percent of maturities in principal falling due in 1984 on credits extended by governments or guaranteed by them, having an original maturity of more than one year, pursuant to contracts concluded before December 1982, would be postponed or refinanced for a seven-year period including a four-year grace period. Bilateral agreements with individual governments will be signed

to that effect. The Yugoslav authorities confirmed that interest due and all non-consolidated maturities will be paid on due date.

4. Participants confirmed that they stood ready to grant in 1984 to Yugoslavia adequate export credits. In particular, they agreed on the following:

- the level of existing short-term guaranteed export credits will be maintained or expanded in 1984;

- the unused portion of medium- and long-term credits agreed upon in Berne in February 1983 will be carried over into 1984;

- additional medium-term export credits will be granted to Yugoslavia for capital goods and, when agreed through bilateral negotiations, intermediate goods and spare parts.

[On this basis, it was estimated that medium- and long-term export credits granted to Yugoslavia in 1984, including commodity credits, could be in the vicinity of $700 million, out of which $350 million as carry-over of the 1983 Berne package.]

5. Participants agreed to meet again in October to review further developments and assess the effective use of export credits and of credits granted by multilateral institutions, including cofinancing with commercial banks.

Yugoslavia: Drawings on Medium- and Long-Term Debt in Convertible Currency by Creditors in 1984

(in millions of U.S. dollars)

	IMF projections	Yugoslav projections	
		Initial	Revised
Government packages	1,240		
Berne	390	330	
Refinancing	(3)	(--)	
New financial credits	(40)	(--) 1/	
Suppliers' credits	(347)	(330)	
Geneva	850		
Refinancing	(700)	(800)	(700)
Suppliers' credits	(150)		
Commercial bank package	1,200	1,200	
Refinancing	1,100	1,200	
New financing	100		
IBRD	505	395	
Regular facilities	250	150	
SAL	255	245	255
Other multilateral lenders: IFC, EIB and Eurofima	50	50	
Suppliers' credits outside Government packages	200	250 2/	350 2/
Subtotal	3,195	3,325	
IMF	290	300	
Total	3,485	3,325	

1/ Included in 1983 drawings.
2/ The sum of Geneva suppliers' credits and suppliers' credits outside government package, excluding CCC credits.

Office Memorandum

March 22, 1984

MEMORANDUM FOR FILES

Subject: Yugoslavia - Review of Financial Package

On March 19-20, in Belgrade, we reviewed together with Mr. Dujmovic and Mr. Korosec, detailed figures on the implementation of the financial package.

1. Governments

Roll-overs and refinancing of financial credits (including $40 million from Austria disbursed on December 31, 1983 but reflected in the 1984 Yugoslav balance of payments figures) under the Berne agreement have been implemented in 1983. The situation of export credits is as follows:

Austria (amount pledged: $60 million). Around 40 percent ($24 million) have already been assigned to identified imports, and an integral use of the credits in 1984 is expected. According to Mr. Dujmovic, the Austrian authorities might contemplate additional credits of the same type.

Belgium ($10 million). There has been no utilization of the agreement signed in 1983, and prospects for 1984 are unclear.

Canada ($40 million). The agreement has just been signed and interest was expressed by Yugoslav importers in using it for intermediate goods. There should be a partial use in 1984.

Denmark ($13 million). Around $1 million has been committed and prospects for further utilization are unclear.

Finland ($11 million). The agreement is to be signed very soon. One-half of it could be used in 1984 for shipbuilding spare parts.

France ($122 million). $65 million have already been committed and $57 million already used. Mr. Dujmovic foresees complete utilization in 1984 of the carry-over and considers that the French should be ready to grant additional medium-term credits for intermediate goods (fertilizers).

Germany ($150 million, including an uninsured portion of 15 percent which means $129 million as additional guarantees). The credits are now fully committed to specified imports, including capital goods, and effectively used for about 25 percent of the total. Effective use of the total credits should take place in the coming months and, according to Mr. Dujmovic, the German Government, under the pressure of German exporters, should stand ready to contemplate additional credits in 1984.

Italy ($100 million). In 1983, Yugoslavia used mostly credits under previous agreements. Of the 1983 agreement under the Berne package, around $20 million has been committed to specified imports and around $2 million effectively used. It is expected that the credit will be totally used in 1984, and the Italian authorities should stand ready to contemplate additional credits.

Japan ($35 million). The agreement has not yet been signed and, in view of the refinancing agreement, the Japanese authorities do not grant new guarantees on Yugoslavia except for capital goods.

Netherlands ($35 million). There has not yet been effective use of the Berne credits, but some requests have been presented by Yugoslav importers and there should be partial use in 1984.

Norway ($25 million). There has been no effective use up to now, but a large part of the credit should be used in 1984 by the shipbuilding industry.

Sweden ($18 million). The signing of the agreement is still held up by contractual difficulties with some Swedish exporters. When these difficulties are overcome and the agreement is signed, it should be used rapidly by Yugoslav importers. A large part of the credit should therefore be used in 1984.

Switzerland ($40 million). Effective use has been mimimal ($0.1 million) and, in view of the complexities of the procedures and the costs attached to them, contemplated use in 1984 is also limited.

United Kingdom. Export credits granted in 1983 were outside the Berne package and parallel developments should take place in 1984. 1/

United States ($235 million). The credit has been totally used for commodity imports of an aggregate amount of $216 million. The Yugoslavs have been told by the United States that commodity credits granted in 1984 should be in the vicinity of $125-130 million.

Kuwait. Mr. Dujmovic was in Kuwait last week. One-year credits for oil imports were offered by the Kuwaiti authorities. Internal decisions have to be reached in Yugoslavia and the most likely outcome will be to ask for six-month credits.

On this basis, Mr. Dumjovic estimated at $330 million (against $347 million in our projections) the effective use in 1984 of the carry-over into 1984 of the 1983 Berne export credits. To speed up the utilization of such credits, a new law had just been submitted to the Parliament with a view to loosening

---

1/ In the Group 2 meeting of January 12 in Paris, the U.K. authorities mentioned a figure of £140 million in 1983 and £115 million in 1984 as medium- and long-term credits. The other country which mentioned specific figures for 1984 was Italy ($145 million in 1984 against $65 million in 1983).

the rule under which corresponding imports should be an immediate input in associated exports, and to broaden the list of eligible semi products and spare parts. Mr. Dujmovic thought that the Geneva meeting should not result in a new pledging session. Some of the pledges of 1983 have not been effectively usable. Yugoslavia was basically interested in additional credits from its main trading partners (Germany, Italy, France, Austria) to be negotiated on a bilateral basis. He concurred, however, in the view that it would be quite helpful to obtain in Geneva an agreement to accept a waiver of the Berne Union rules if such bilateral discussions led to the inclusion of intermediate goods and spare parts in new medium-term export credits.

I also mentioned to Mr. Dujmovic that some of the governments might raise the issue of parallel treatment of non-EC governments. He said that there was no possibility of renegotiating existing agreements with COMECON countries, but that he might point out that, in the 1984 balance of payments with the non-convertible area, there was no expected net repayment to such countries. As far as oil producing countries were concerned, they should be a part of the agreement with commercial banks.

2. Commercial banks

The terms and conditions offered by the ICC will be accepted by the Yugoslav authorities in a telex to be sent on March 23. A Yugoslav delegation, led by Mr. Dujmovic, will be in New York next week to start detailed negotiations of the contract which should be signed on May 25.

The reconciliation process has made further progress. Out of 661 creditor banks questioned by Peat Marwick, 148 have not yet replied, but around 80 percent of the total amount has now been reconciled.

(in millions of U.S. dollars)

	Yugoslav figures	Creditors' figures	Figures reconciled as of March 2
Syndicated credits	1,158	910	744
A forfait transactions	76	48	43
Bonds	33	3	3
Others	296	240	188
	1,563	1,201	977 1/

1/ 60 percent of Yugoslav figures and 80 percent of creditors' figuress.

Mr. Korosec said that the $200 million 18-month credit granted in 1982 by a Citibank syndicate and maturing on June 30, 1984 would be, by mutual agreement and as provided for in the initial contract, extended by a further 18 months, since there was now a new stand-by agreement with the Fund, and therefore excluded from the refinancing agreement. Other excluded elements (a part of à forfait transactions, bonds and FRNs held by non-banks, claims of Yugoslav banks' subsidiaries abroad) should be limited, in the vicinity of $100 million, and Mr. Korosec estimated at $1,200 million total refinancing by banks in 1984.

On short-term credits, Mr. Korosec said that the effective use of trade-related facilities ("continuing credit facilities") open until January 15, 1985 was around $500 million (slightly below its level of end 1983) against a potential maximum use of $570 million. Mr. Korosec did not expect major difficulties in obtaining from banks, at end 1984, a rollover beyond January 15, 1985 of these facilities. It would prove probably more difficult to obtain from banks a postponement of the repayment of the $225 million extension loans (non trade-related short-term credits) consolidated in 1983 up to January 15, 1985.

Mr. Korosec said that the standstill in 1984 was fully respected by Yugoslav banks, under strict supervision of the National Bank.

On new money, Mr. Dujmovic and Mr. Korosec expressed interest in a Hungarian-type medium-term acceptance facility which could be substituted for the existing continuing credit facilities when they matured. They also mentioned arrangements with foreign commercial banks, notably in Germany, to pre-finance workers' remittances--a subject to be discussed next week in Frankfurt, together with trade facilities, with German commercial banks.

Mr. Dumjovic and Mr. Korosec expressed interest in cofinancing by commercial banks with multilateral institutions. I also mentioned to Mr. Korosec that it might prove helpful to obtain in advance a waiver of existing negative pledge clauses if reserve developments implied in 1984 the use of some gold as collateral. He took note of this suggestion, but we agreed that, in any case, no action should be contemplated before the signing of the agreement with commercial banks.

3. <u>Multilateral institutions</u>

Mr. Lari, World Bank, will be in Belgrade next week. Mr. Dujmovic did not expect major difficulties for the release of the SAL second tranche, the more so since the World Bank had fully concurred in the idea of a joint study group on foreign exchange allocation. He was, however, less optimistic than World Bank officials on effective disbursements in 1984 under project loans, since, for many of these projects, internal decisions had yet to be taken.

I drew the attention of Mr. Dujmovic (and later of Mr. Smole) to the absence of any use of the three credits granted by the EIB under the expiring protcol. Mr. Dujmovic checked with the lead bank and confirmed that the highway project was delayed by internal difficulties (guarantees to be obtained by Beogradska Banka from interested basic banks). He was more confident on the railway project managed by Ljubljanska Banka. Mr. Smole concurred in the view that it would be helpful to show that such credits are effectively used at a time when Yugoslavia is resuming negotiations with the EC on a new protocol. Mr. Smole said that such discussions should be broadened to trade relations with the EC (protectionism against Yugoslavian exports), more direct financial assistance by the EC and a broadening of the scope of the EIB credits to include sectorial loans and global loans to Yugoslav commercial banks relending to Yugoslavian exporters.

Mr. Smole and his associates expressed interest in the cofinancing by commercial banks with the World Bank and the EIB and will ask Yugoslav commercial banks to organize meetings to that effect with interested foreign commercial banks.

P. Mentré

cc: Mr. Schmitt
Mr. Hansen
Mr. Petersen

March 21, 1984

Suggestions for Mr. Smole

1. Graceful thank you to the Swiss--mention Probst by name--and a thank you to others for attending.

2. Speak on 1984 program and objectives. Stress Yugoslavia's commitment and the Government's belief in these measures. Refer to any differences as ones of timing only.

3. Say that nevertheless measures had to be agreed over opposition of powerful interest groups and the Government would be greatly helped by as firm a public declaration as possible on agreement to reschedule the 1984 maturities to Governments.

March 21, 1984

Possible Alternative Agenda

1. Statement by the Chairman on the timetable for future meetings concerning Yugoslavia (this item might equally be taken at the end of the meeting).

2. Report on the Yugoslav program for 1984 (Yugoslav and Fund representatives).

3. Medium-term prospects (Yugoslav, Fund and World Bank representatives).

4. Report on discussions held in the two working groups (Paris meetings, January 11 and 12, 1984):

A. Group 1 (debt issues): Refinancing of medium- and long-term maturities guaranteed by or falling due to governments in 1984, contemplated timetable (representatives of France).

B. Group 2: Carry-over into 1984 of the 1983 Berne package (Fund representatives).

5. Prospect for nongovernmental financial flows in 1984

A. World Bank lending, including possible cofinancing with commercial banks (Yugoslav and World Bank representatives).

B. Lending by European Institutions including possible cofinancing with commercial banks (Yugoslav and representatives of EC countries).

C. Status of discussion with commercial banks: Refinancing of medium- and long-term maturities falling due to banks in 1984, additional flows, short-term credits (Yugoslav representatives and IMF).

6. Export credits

(Governments' representatives)

- Maintenance or expansion of existing short-term credit lines or guarantees in 1984

- Projections of medium- and long-term export credits for Yugoslavia in 1984, beyond the carry-over of the Berne package, with the following breakdown:

A. Capital goods:

(I) Export credits under arrangements signed prior to the Berne agreement

(II) Export credits under arrangements signed in 1983

(III) Export credits under arrangements to be signed in 1984

B. Commodities

C. Intermediate goods, raw materials, spare parts

7. Approval of a press statement.

8. Other business.

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MR. PAUL MENTRE
OFFICE IN EUROPE
PARIS
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1. FOLLOWING IS THE DRAFT PRESS COMMUNIQUE:

REPRESENTATIVES OF FOREIGN GOVERNMENTS (AUSTRIA, BELGIUM, CANADA, DENMARK, FINLAND, FRANCE, GERMANY, ITALY, JAPAN, KUWAIT, NETHERLANDS, NORWAY, SWEDEN, SWITZERLAND, THE UNITED KINGDOM, AND THE UNITED STATES [AND SPAIN AS OBSERVER] MET IN GENEVA ON MARCH 24, 1984 UNDER THE CHAIRMANSHIP OF STATE SECRETARY RAYMON D PROBST. THE YUGOSLAV DELEGATION WAS LED BY MR. JANKO SMOLE, MEMBER OF THE FEDERAL EXECUTIVE COUNCIL. REPRESENTATIVES OF THE IMF AND THE WORLD BANK ALSO ATTENDED THE MEETING.

PARTICIPANTS AT THE MEETING REVIEWED THE IMPLEMEN TATION OF THE 1983 FINANCING PACKAGE AND DISCUSSED PROSPECTS FOR 1984. SUBJECT TO APPROVAL BY THE BOARD OF THE IMF OF THE STAND BY ARRANGEMENT FOR 1984, COUNTRY DELEGATES EXPRESSED THEIR INTENTION TO RESCHEDULE 100 PERCENT OF THE MATURITIES FALLING DUE IN 1984 ON CREDITS EXTENDED BY GOVERNMENTS OR GUARANTEED BY THEM, HAVING AN ORIGINAL MATURITY OF MORE THAN ONE YEAR, PURSUANT TO

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CONTRACTS CONCLUDED BEFORE DECEMBER 2, 1982. [PARTICIPANTS ALSO EXPRESSED THEIR WILLINGNESS TO KEEP YUGOSLAVIA ON COVER FOR EXPORT CREDITS ON NORMAL MARKET TERMS.]

2. FOLLOWING ARE POINTS FOR STATE SECRETARY PROBST:

THE BERNE MEETING IN 1983 AGREED THAT CREDIT FOR INTERMEDIATE GOODS EXTENDED UNDER ITS TERMS WOULD BE EXEMPT FROM THE NORMAL BERNE UNION RULES. WE UNDERSTAND THAT GOVERNMENTS ARE NOT PREPARED TO MAKE A SIMILAR CONCESSION IN REGARD TO ANY NEW CREDITS THEY MIGHT EXTEND FOR 1984 THOUGH THIS SHOULD BE TESTED. HOWEVER, THE BERNE PACKAGE CREDITS CARRIED INTO 1984 SHOULD SURELY BE TREATED IN THE SAME WAY AS THE DISBURSEMENTS MADE DURING 1983. THIS LAST POINT NEEDS TO BE VERIFIED.

IT WOULD BE USEFUL TO DRAW OUT THE INTENTIONS OF THE MAIN CREDITORS AS FAR AS THEY ARE PREPARED TO GO IN A PUBLIC MEETING. THE U.S. SHOULD BE THE STARTING POINT.

CONFIRMATION SHOULD BE SOUGHT THAT ALL MAIN EXPORT CREDIT AGENCIES REMAINED IN COVER TO YUGOSLAVIA (WE

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UNDERSTAND THAT THIS MAY NOT BE THE CASE IN JAPAN).

INSOFAR AS INDICATIONS BY GOVERNMENTS SUGGEST THAT THE INFLOW OF CAPITAL TO YUGOSLAVIA WOULD BE LARGER THAN HAS BEEN FORECAST THIS SHOULD BE TAKEN AS A WELCOME DEVELOPMENT. IT WILL HELP OFFSET ANY ADVERSE MOVEMENT ON SHORT TERM CAPITAL FLOWS OVER AND ABOVE THAT FORESEEN IN THE FORECAST AND IT MAY ALSO ALLOW A SOMEWHAT HIGHER LEVEL OF IMPORTS AS WELL AS A FURTHER BUILDING UP OF OFFICIAL RESERVES.

THE POSITION AS REGARDS THE NEGATIVE PLEDGE CLAUSE COULD PROVE TO BE IMPORTANT BUT SURELY CANNOT BE RAISED IN THE MEETING.

COMMUNICATION OF INTENTIONS OF GOVERNMENTS TO BE GIVEN TO ICC BY STATE SECRETARY PROBST AT SOME DATE AFTER THE MEETING.

3. SUGGESTIONS FOR MR. SMOLE:

GRACEFUL THANK YOU TO THE SWISS, MENTION PROBST BY NAME, AND A THANK YOU TO OTHERS FOR ATTENDING.

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SPEAK ON 1984 PROGRAM AND OBJECTIVES. STRESS YUGOSLAVIA'S COMMITMENT AND THE GOVERNMENT'S BELIEF IN THESE MEASURES. REFER TO ANY DIFFERENCES AS ONES OF TIMING ONLY.

SAY THAT NEVERTHELESS MEASURES HAD TO BE AGREED OVER OPPOSITION OF POWERFUL INTEREST GROUPS AND THE GOVERNMENT WOULD BE GREATLY HELPED BY AS FIRM A PUBLIC DECLARATION AS POSSIBLE ON AGREEMENT TO RESCEDULE THE 1984 MATURITIES TO GOVERNMENTS.

4. POSSIBLE ALTERNATIVE AGENDA:

1. STATEMENT BY THE CHAIRMAN ON THE TIMETABLE FOR FUTURE MEETINGS CONCERNING YUGOSLAVIA(THIS ITEM MIGHT EQUALLY BE TAKEN AT THE END OF THE MEETING).

2. REPORT ON THE YUGOSLAV PROGRAM FOR 1984 (YUGOSLAV AND FUND REPRESENTATIVES).

3. MEDIUM-TERM PROSPECTS (YUGOSLAV AND FUND AND WORLD BANK REPRESENTATIVES).

4. REPORT ON DISCUSSIONS HELD IN THE TWO WORKING GROUPS

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(PARIS MEETINGS, JANUARY 11 AND 12, 1984):

A. GROUP 1 (DEBT ISSUES): REFINANCING OF MEDIUM AND LONG TERM MATURITIES GUARANTEED BY OR FALLING DUE TO GOVERNMENTS IN 1984, CONTEMPLATED TIMETABLE (REPRESENTA TIVES OF FRANCE).

B. GROUP 2: CARRY OVER INTO 1984 OF THE 1983 BERNE PACKAGE (FUND REPRESENTATIVES).

5. PROSPECT FOR NONGOVERNMENTAL FINANCIAL FLOWS IN 1984

A. WORLD BANK LENDING, INCLUDING POSSIBLE COFINANCING WITH COMMERCIAL BANKS (YUGOSLAV AND WORLD BANK REPRESENTATIVES).

B. LENDING BY EUROPEAN INSTITUTIONS INCLUDING POSSIBLE COFINANCING WITH COMMERCIAL BANKS (YUGOSLAV AND REPRESENTATIVES OF EC COUNTRIES).

C. STATUS OF DISCUSSION WITH COMMERCIAL BANKS: REFINANCING OF MEDIUM AND LONG TERM MATURITIES FALLING DUE TO BANKS IN 1984, ADDITIONAL FLOWS, SHORT TERM CREDITS (YUGOSLAV REPRESENTATIVES AND IMF).

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6. EXPORT CREDITS

(GOVERNMENTS' REPRESENTATIVES)

MAINTENANCE OR EXPANSION OF EXISTING SHORT TERM CREDIT LINES OR GUARANTEES IN 1984.

PROJECTIONS OF MEDIUM AND LONG TERM EXPORT CREDITS FOR YUGOSLAVIA IN 1984, BEYOND THE CARRY OVER OF THE BERNE PACKAGE, WITH THE FOLLOWING BREAKDOWN:

A. CAPITAL GOODS:

I. EXPORT CREDITS UNDER ARRANGEMENTS SIGNED PRIOR TO THE BERNE AGREEMENT.

II. EXPORT CREDITS UNDER ARRANGEMENTS SIGNED IN 1983.

III. EXPORT CREDITS UNDER ARRANGEMENTS TO BE SIGNED IN 1984.

B. COMMODITIES

C. INTERMEDIATE GOODS, RAW MATERIALS, SPARE PARTS.

7. APPROVAL OF A PRESS STATEMENT

8. OTHER BUSINESS

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Office Memorandum

March 21, 1984

To: Mr. Whittome
Mr. Schmitt

From: Jack Boorman

Subject: Yugoslavia - Speaking Notes for Geneva

Attached please find a revised version of the speaking notes on recent developments and near term prospects in Yugoslavia for the Geneva meeting.

Att.

Yugoslavia - Notes for the Geneva Meeting on March 24, 1984

1. Recent developments

a. External accounts

The c/a balance with convertible area improved more than programmed in 1983: to a surplus of US$300 million instead of a deficit of US$500 million. (Deficit in 1982: US$1.6 billion or 2 1/2 percent of GSP.) The c/a with the nonconvertible area was in balance.

There was a substantial capital outflow in 1983 and, instead of a buildup of reserves of about US$600 million as programmed, a decline of US$55 million was recorded. This was mainly on account of short-term capital outflows and errors and omissions; the latter item alone swung from a surplus of US$660 million in 1982 to a deficit of more than US$1,230 million. (Reasons: nonpayment of export receipts from LDCs (mainly Iraq), extension of the period of repatriation of export proceeds from 60 to 90 days, and, more importantly, negative real interest rates in Yugoslavia.)

Disbursments of capital flows in 1983 are shown in Table 2.

b. Domestic economy in 1983

There was a substantial decline in domestic demand. Real wages in the socialized sector fell by 10 percent (25 percent over the last four years). Private consumption, however, fell by only 2 percent. (Incomes apparently remained buoyant in nonsocialized sector.) Gross fixed investment declined for the fourth year in a row. Total GSP fell by 2 1/2 percent.

Industrial production rose by more than 1 percent. Inventories, even of imported goods, increased. There is an apparent conflict between these latter developments and the figures for imports, (a decline of 11 percent from the nonconvertible area and 5 percent total). There may have been

underreporting of imports (possibly related to the foreign exchange allocation system).

Retail prices rose by 58 1/2 percent during the year, compared with 31 percent during 1982.

c. Financial policies in 1983

(1) The real effective exchange rate depreciated by 25 percent during the year.

(2) Public sector revenue fell by 5 percent in real terms and there was a small public sector surplus.

(3) The stock of real money declined by 12 percent, and real domestic credit by 17 percent.

(4) Interest rates for deposits were raised in February together with the discount rate and selective lending rates of NBY. The latter were raised again in July, but the scheduled further increases for deposit rates at the end of the year were not implemented. Rates became increasingly negative during the year.

2. Balance of payments and reserves in 1984

Balance of payments developments. (Table 1 is to be distributed at the meeting). Main features: c/a target of US$500 million. (Yugoslav estimate somewhat higher, US$800 million). Balance on c/a with nonconvertible area. Balance on capital account. Consequently, there will be a buildup of reserves of US$500 million. A reserves test is incorporated in the program. Need for buildup of reserves during 1984:

(i) reserves at the end of 1983 equivalent to only 10 weeks of merchandise imports from the convertible area;

(ii) normal seasonal needs in first half of 1985;

(iii) some US$800 million in short-term debt (rolled over in January 1983) falls due in January 1985.

Capital inflows illustrated in Table 2 (to be circulated at the meeting). It is important that there be no slippage in these identified capital flows because of tight reserve position.

"Errors and omissions" need to be limited to the figure shown in Table 1. There is much uncertainty about this figure. (Again illustrates the need for no slippage in implementing the financing package. However, this point cannot be pressed too hard, since the governments could then argue that the program negotiated is unsatisfactory.)

3. Interest rate and exchange rate adjustments in 1984

The Yugoslav authorities have decided to define a target of interest which will make interest rates positive in real terms. Interest rates on dinar deposits of varying maturities will be adjusted to this target according to a fixed schedule. The first step on May 1, 1984 will close 40 percent of the gap between the end-1983 rate and the target rate on three-month deposits of households. In nominal terms the increase will be from 12 percent to about 30 percent. At the same time, three-month deposits will be available to enterprises at the same interest rate that applies for households. The remaining gap of 60 percent will be closed in four equal steps by 15 percent each on July 1 and October 1, 1984, and on January 1 and April 1, 1985. The discount rate and other lending rates of the National Bank of Yugoslavia will be adjusted commensurately.

To recapture a degree of competitiveness adequate to support their external objectives, the Yugoslav authorities have decided to restore the real depreciation of the dinar since the beginning of 1983 to close to 25 percent in two steps, one by April 30, 1984 and the other by June 30, 1984. Thereafter, they will hold the real rate constant by monthly exchange rate changes sufficient to equalize inflation rates at home and abroad, as measured by producer prices.

March 20, 1984

Subject: Medium-Term outlook/policy agenda beyond 1984

Summary:

Exchange rate policy and other measures in 1983 produced a satisfactory current account outturn in convertible currencies; interest rate policy in 1984 should reverse the unsatisfactory recent performance on the capital account. In 1985 and beyond efforts to make the current account surplus a sustainable one will need to be continued and intensified; the improvement so far cannot as yet be termed fundamental. Among the Government's key medium term objectives are a reduction in foreign debt exposure, the development of a unified foreign exchange market and, more generally, an increased reliance on market forces.

1. Exposure to external debt

The need for external adjustment in the medium term is to be assessed in the light of Yugoslavia's objective of reducing its exposure to external debt. A range of possibilities is discussed in Appendix III of the Board paper. Under scenario 3 (to be distributed to participants in Geneva), a modest interpretation of this objective is given, namely that the dollar value of Yugoslavia's outstanding foreign debt should remain stable over the next several years. A current account surplus is thus required, given the need to build up external reserves in the years beyond 1984. Nevertheless, unless the compression of imports has been overdone to a greater extent than evidence to date would suggest, the growth performance in the second half of the 1980s should be notably better than in the first half of the decade. (The extent to which this growth potential is realized, and with it an easing of the difficult unemployment situation, will depend on the authorities' success in stimulating the interregional mobility of labor and capital resources.)

2. Prospects for the external sector

During the 1981-83 stand-by period a substantial current account deficit in convertible currencies was transformed into a surplus through a compression of merchandise imports throughout the period (-37 percent in volume terms over the last three years; the decline in total merchandise imports, including those from the nonconvertible area, is less pronounced), and a substantial increase in exports in 1983. The aggressive exchange rate policy in 1983 produced a powerful incentive to expand exports. However, only part of this incentive has thus far been reflected in the volume and structure of export production; what is required is to elicit a fuller response. The growth of industrial output has thus far not been concentrated in industrial branches oriented towards the production of exports (Chart 4 of Board paper) or of import substitutes. Until this happens, the improvement in the current account cannot be regarded as fundamental. That is, the adoption of a growth-oriented policy strategy may, at this stage, only cause the external imbalance to re-emerge. Thus, in the period beyond 1984 the focus of policy will need to relate not so much to further increases in the current account surplus but, rather, to changes in the structure of production and consumption that will consolidate the improvement in the external balance. This entails not only a shifting of resources to the tradable goods sector but within that sector away from unviable enterprises and lines of production to the more efficient ones.

3. <u>Greater efficiency of resources allocation</u>

a. <u>Foreign exchange</u>

In order to enhance the economic gains from a given increase in foreign exchange earnings, the Yugoslav authorities have committed themselves to the medium-term objective of developing a unified, i.e. nationwide, foreign exchange market. Political sensitivities, owing especially to the uneven regional impact of changes to the present foreign exchange allocation system, make progress in this area unusually difficult. (One could refer to the two studies of the foreign exchange allocation system.) However, the inefficiencies caused by the fragmentation of the foreign exchange market have been lessened by the move in 1983 toward a market-clearing exchange rate. More such movement may be necessary after 1984.

b. <u>Mobility of capital and labor</u>

There is a need to reduce the various formal and informal mechanisms for transferring resources from profitable to financially weak or inefficient enterprises. Policy elements of the 1984 program that have this aim will be assessed, including the reduction of federal export subsidies (that distort exchange rate signals), the reduction of subsidies through joint reserve funds (that distort market signals more generally), using wage policies to induce a shift of labor from ailing enterprises, and a more rational interest rate policy to encourage an efficient allocation of financial resources. In the light of this experience new initiatives will be put forward in 1985 and beyond.

4. Need to make policy instruments more effective

a. Fiscal policy

A harmonization of the tax policies of the various republics and provinces is underway and will be implemented in the course of 1984. In 1985 and beyond this should make it possible to wield conventional fiscal policy instruments at a centralized level more effectively than before. Also, more is to be done in the next few years that would allow tax policy to exert a greater influence over the development of ~~the~~ a larger proportion of household income, and, hence, private consumption than is now possible.

b. Monetary policy

Further efforts to make monetary policy more effective (i.e., apart from the beneficial impact of the rise in interest rates over the next year) will be needed in the medium-term. Ways will need to be found to break down barriers to interregional financial flows; but of course the political obstacles are daunting.

c. Incomes policy

As noted in the Board paper, a social compact on incomes policy is being worked out, but it is uncertain whether incomes policy can reasonably be expected to contribute to a stabilization program.

d. Investment policy

A methodology is being worked out with the World Bank for defining priorities for investment projects more precisely and rigorously. Greater selectivity should result, which would boost the efficiency of investment.

March 21, 1984

Points for State Secretary Probst

1. The Berne meeting in 1983 agreed that credit for intermediate goods extended under its terms would be exempt from the normal Berne Union rules. We understand that governments are not prepared to make a similar concession in regard to any new credits they might extend for 1984 though this should be tested. However, the Berne package credits carried into 1984 should surely be treated in the same way as the disbursements made during 1983. This last point needs to be verified.

2. It would be useful to draw out the intentions of the main creditors as far as they are prepared to go in a public meeting. The U.S. should be the starting point.

3. Confirmation should be sought that all main export credit agencies remained in cover to Yugoslavia (we understand that this may not be the case in Japan).

4. Insofar as indications by governments suggest that the inflow of capital to Yugoslavia would be larger than has been forecast this should be taken as a welcome development. It will help offset any adverse movement on short-term capital flows over and above that foreseen in the forecast and it may also allow a somewhat higher level of imports as well as a further building up of official reserves.

5. The position as regards the negative pledge clause could prove to be important but surely cannot be raised in the meeting.

6. Communication of intentions of governments to be given to ICC by State Secretary Probst at some date after the meeting.

Office Memorandum

For folder JB

To: Mr. Whittome

From: Jack Boorman

Subject: Yugoslavia: Geneva Meting on March 24, 1984

March 21, 1984

1. I attach a draft Press Communique for the Geneva meeting. I have tried to contact Ms. Constable but am told she has already left the U.S. Moreover, we are informed that she is the sole U.S. delegate to the meeting. Consequently, I have not been able to address the issue raised in the last paragraph of your note this morning to Mr. Schmitt and me. This has forced rather vague wording which may not leave either the country delegates or the Yugoslav authorities comfortable.

2. Mr. Martin of the Swiss Embassy has informed me that there will will be four secretaries available for the meeting in Geneva each with facility in French and English.

Att.

Intergovernmental Meeting on Yugoslavia

Geneva, March 24, 1984

Press Communiqué

Representatives of foreign governments (Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Kuwait, Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States [and Spain as observer] met in Geneva on March 24, 1984 under the chairmanship of Secretary of State Raymond Probst. The Yugoslav delegation was led by Mr. Janko Smole, member of the Federal Executive Council. Representatives of the IMF and the World Bank also attended the meeting.

Participants at the meeting reviewed the implementation of the 1983 financing package and discussed prospects for 1984. Subject to approval by the Board of the IMF of the stand-by arrangement for 1984, country delegates expressed their intention to reschedule 100 percent of the maturities falling due in 1984 on credits extended by Governments or guaranteed by them, having an original maturity of more than one year, pursuant to contracts concluded before December 2, 1982. [Participants also expressed their willingness to keep Yugoslavia on cover for export credits on normal market terms.]

ec: KOS
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WASHINGTON, D. C. 20431

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Mr.. Harry Taylor
President
Manufacturers Hanover Trust Company
New York, N.Y.

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cc: Mr. Polak

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We understand that discussions between the Yugoslav authorities and the commercial banks represented in the ICC on the terms and conditions for the refinancing of principal payments on medium and long-term debt falling due to banks during 1984 are proceeding but will not be completed before the March 31 expiration of the standstill period previously agreed to. We have been informed that an extension of the standstill period to end June 1984 has been proposed to allow time for completion of thes~ discussions and that the ICC intends to recommend approval thereof, simultaneous with information to banks on the terms and conditions of the proposed refinancing arrangement.

Negotiations between Yugolavia and the Fund staff have now led to an agreement on a policy package in support of which the authorities have requested a one year stand-by arrangement with the Fund. I intend to recommend approval of this agreement and expect Board

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TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): J. Boorman EXT.: 8866 DEPT. EUR DATE. Mar. 21, 1984

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

AUTHORIZED BY NAME (TYPE): ( )

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- 2 -

action on the program in mid-April. As you know, Yugoslavia's adjustment efforts have already led to a significant improvement in the current account with the convertible currency area in which a surplus of nearly $300 million was recorded in 1983. The aim of the policy package for 1984 is to further strengthen this position while at the same time placing particular emphasis on measures to improve the capital account.

It is important that all elements of the financial support arrangements for Yugoslavia fall into place on the tentative schedule now foreseen by the ICC, by Governments and by the Fund. Therefore, I support the proposal for an extension of the standstill period in line with the continued efforts to finalize the financial package for 1984 during that period.

Regards.

J. de Larosiere

Interfund

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Office Memorandum

MAR 21 1984

Mar 21. 84

To: The Managing Director March 20, 1984

From: L.A. Whittome

Subject: <u>Yugoslavia - Telex to Manufacturers Hanover</u>

I attach for your signature a telex to the President of Manufacturers Hanover regarding an extension of the standstill period for Yugoslavia. We have today received notice that the Federal Assembly and Federal Executive Council have formally approved the proposed stand-by arrangement. It is now anticipated that the proposed terms and conditions for the refinancing of principal payments due on bank loans will be sent to banks represented by the ICC in late March and that all agreements will be signed between late May and mid-June.

Att.

cc: Deputy Managing Director
Mr. Schmitt
Mr. Boorman
Mr. Collins

Mr. Schmitt
file

Office Memorandum

To: Mr. Schmitt
Mr. Boorman

March 21, 1984

From: L.A. Whittome

Subject: Yugoslavia

Mr. Smole phoned from Belgrade this morning to say that they very much hoped that the Geneva conference could come to a decision on the preparedness of governments to reschedule debts due to them. I sought to explain that as I understood it the Geneva conference could come to an agreement on principle on this matter but that formally the bilateral agreements could only be signed by the "Paris Club" members after Board approval of the 1984 stand-by.

Eventually Smole seemed to understand this point but he clearly wants a press communique from Geneva that would allow him to present the conference domestically as something which made the rescheduling of debt all over "bar the shouting".

Would you or Mr. Boorman please contact Mrs. Constable and whoever is going from the U.S. Treasury to see how far they would be prepared to go to meet Smole's point on the communique to be issued in Geneva. I think we should seek to help Smole for it is very certain that this whole negotiating process has been a most painful one for the Yugoslavs and must have left a series of scars.

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MR. PAUL MENTRE
OFFICE IN EUROPE
PARIS
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1. FOLLOWING IS THE DRAFT PRESS COMMUNIQUE:

REPRESENTATIVES OF FOREIGN GOVERNMENTS (AUSTRIA, BELGIUM, CANADA, DENMARK, FINLAND, FRANCE, GERMANY, ITALY, JAPAN, KUWAIT, NETHERLANDS, NORWAY, SWEDEN, SWITZERLAND, THE UNITED KINGDOM, AND THE UNITED STATES (AND SPAIN AS OBSERVER)) MET IN GENEVA ON MARCH 24, 1984 UNDER THE CHAIRMANSHIP OF STATE SECRETARY RAYMON D PROBST. THE YUGOSLAV DELEGATION WAS LED BY MR. JANKO SMOLE, MEMBER OF THE FEDERAL EXECUTIVE COUNCIL. REPRESENTATIVES OF THE IMF AND THE WORLD BANK ALSO ATTENDED THE MEETING.

PARTICIPANTS AT THE MEETING REVIEWED THE IMPLEMEN TATION OF THE 1983 FINANCING PACKAGE AND DISCUSSED PROSPECTS FOR 1984. SUBJECT TO APPROVAL BY THE BOARD OF THE IMF OF THE STAND BY ARRANGEMENT FOR 1984, COUNTRY DELEGATES EXPRESSED THEIR INTENTION TO RESCHEDULE 100 PERCENT OF THE MATURITIES FALLING DUE IN 1984 ON CREDITS EXTENDED BY GOVERNMENTS OR GUARANTEED BY THEM, HAVING AN ORIGINAL MATURITY OF MORE THAN ONE YEAR, PURSUANT TO

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TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): LAWHITTOME EXT.: 73074 DEPT.: EUR DATE: 3/21/84

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

AUTHORIZED BY NAME (TYPE): ( )

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CONTRACTS CONCLUDED BEFORE DECEMBER 2, 1982. [PARTICIPANTS ALSO EXPRESSED THEIR WILLINGNESS TO KEEP YUGOSLAVIA ON COVER FOR EXPORT CREDITS ON NORMAL MARKET TERMS.]

2. FOLLOWING ARE POINTS FOR STATE SECRETARY PROBST:

THE BERNE MEETING IN 1983 AGREED THAT CREDIT FOR INTERMEDIATE GOODS EXTENDED UNDER ITS TERMS WOULD BE EXEMPT FROM THE NORMAL BERNE UNION RULES. WE UNDERSTAND THAT GOVERNMENTS ARE NOT PREPARED TO MAKE A SIMILAR CONCESSION IN REGARD TO ANY NEW CREDITS THEY MIGHT EXTEND FOR 1984 THOUGH THIS SHOULD BE TESTED. HOWEVER, THE BERNE PACKAGE CREDITS CARRIED INTO 1984 SHOULD SURELY BE TREATED IN THE SAME WAY AS THE DISBURSEMENTS MADE DURING 1983. THIS LAST POINT NEEDS TO BE VERIFIED.

IT WOULD BE USEFUL TO DRAW OUT THE INTENTIONS OF THE MAIN CREDITORS AS FAR AS THEY ARE PREPARED TO GO IN A PUBLIC MEETING. THE U.S. SHOULD BE THE STARTING POINT.

CONFIRMATION SHOULD BE SOUGHT THAT ALL MAIN EXPORT CREDIT AGENCIES REMAINED IN COVER TO YUGOSLAVIA (WE

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UNDERSTAND THAT THIS MAY NOT BE THE CASE IN JAPAN).

INSOFAR AS INDICATIONS BY GOVERNMENTS SUGGEST THAT THE INFLOW OF CAPITAL TO YUGOSLAVIA WOULD BE LARGER THAN HAS BEEN FORECAST THIS SHOULD BE TAKEN AS A WELCOME DEVELOPMENT. IT WILL HELP OFFSET ANY ADVERSE MOVEMENT ON SHORT TERM CAPITAL FLOWS OVER AND ABOVE THAT FORESEEN IN THE FORECAST AND IT MAY ALSO ALLOW A SOMEWHAT HIGHER LEVEL OF IMPORTS AS WELL AS A FURTHER BUILDING UP OF OFFICIAL RESERVES.

THE POSITION AS REGARDS THE NEGATIVE PLEDGE CLAUSE COULD PROVE TO BE IMPORTANT BUT SURELY CANNOT BE RAISED IN TEH MEETING.

COMMUNICATION OF INTENTIONS OF GOVERNMENTS TO BE GIVEN TO ICC BY STATE SECRETARY PROBST AT SOME DATE AFTER THE MEETING.

3. SUGGESTIONS FOR MR. SMOLE:

GRACEFUL THANK YOU TO THE SWISS, MENTION PROBST BY NAME, AND A THANK YOU TO OTHERS FOR ATTENDING.

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SPEAK ON 1984 PROGRAM AND OBJECTIVES. STRESS YUGOSLAVIA'S COMMITMENT AND THE GOVERNMENT'S BELIEF IN THESE MEASURES. REFER TO ANY DIFFERENCES AS ONES OF TIMING ONLY.

SAY THAT NEVERTHELESS MEASURES HAD TO BE AGREED OVER OPPOSITION OF POWERFUL INTEREST GROUPS AND THE GOVERNMENT WOULD BE GREATLY HELPED BY AS FIRM A PUBLIC DECLARATION AS POSSIBLE ON AGREEMENT TO RESCEDULE THE 1984 MATURITIES TO GOVERNMENTS.

4. POSSIBLE ALTERNATIVE AGENDA:

1. STATEMENT BY THE CHAIRMAN ON THE TIMETABLE FOR FUTURE MEETINGS CONCERNING YUGOSLAVIA(THIS ITEM MIGHT EQUALLY BE TAKEN AT THE END OF THE MEETING).

2. REPORT ON THE YUGOSLAV PROGRAM FOR 1984 (YUGOSLAV AND FUND REPRESENTATIVES).

3. MEDIUM-TERM PROSPECTS (YUGOSLAV AND FUND AND WORLD BANK REPRESENTATIVES).

4. REPORT ON DISCUSSIONS HELD IN THE TWO WORKING GROUPS

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(PARIS MEETINGS, JANUARY 11 AND 12, 1984):

A. GROUP 1 (DEBT ISSUES): REFINANCING OF MEDIUM AND LONG TERM MATURITIES GUARANTEED BY OR FALLING DUE TO GOVERNMENTS IN 1984, CONTEMPLATED TIMETABLE (REPRESENTA TIVES OF FRANCE).

B. GROUP 2: CARRY OVER INTO 1984 OF THE 1983 BERNE PACKAGE (FUND REPRESENTATIVES).

5. PROSPECT FOR NONGOVERNMENTAL FINANCIAL FLOWS IN 1984

A. WORLD BANK LENDING, INCLUDING POSSIBLE COFINANCING WITH COMMERCIAL BANKS (YUGOSLAV AND WORLD BANK REPRESENTATIVES).

B. LENDING BY EUROPEAN INSTITUTIONS INCLUDING POSSIBLE COFINANCING WITH COMMERCIAL BANKS (YUGOSLAV AND REPRESENTATIVES OF EC COUNTRIES).

C. STATUS OF DISCUSSION WITH COMMERCIAL BANKS: REFINANCING OF MEDIUM AND LONG TERM MATURITIES FALLING DUE TO BANKS IN 1984, ADDITIONAL FLOWS, SHORT TERM CREDITS (YUGOSLAV REPRESENTATIVES AND IMF).

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6. EXPORT CREDITS

(GOVERNMENTS' REPRESENTATIVES)

MAINTENANCE OR EXPANSION OF EXISTING SHORT TERM CREDIT LINES OR GUARANTEES IN 1984.

PROJECTIONS OF MEDIUM AND LONG TERM EXPORT CREDITS FOR YUGOSLAVIA IN 1984, BEYOND THE CARRY OVER OF THE BERNE PACKAGE, WITH THE FOLLOWING BREAKDOWN:

A. CAPITAL GOODS:

I. EXPORT CREDITS UNDER ARRANGEMENTS SIGNED PRIOR TO THE BERNE AGREEMENT.

II. EXPORT CREDITS UNDER ARRANGEMENTS SIGNED IN 1983.

III. EXPORT CREDITS UNDER ARRANGEMENTS TO BE SIGNED IN 1984.

~~B. COMMODITIES~~

C. INTERMEDIATE GOODS, RAW MATERIALS, SPARE PARTS.

7. APPROVAL OF A PRESS STATEMENT

8. OTHER BUSINESS

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WHITTOME

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CABLE ADDRESS:

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

EXT.: 73074 DEPT.: EUR DATE: 3/21/84

AUTHORIZED BY NAME (TYPE): LAWHITTOME

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Mr. Schmitt March 20, 1984

L.A. Whittome

Yugoslavia

I note that the Managing Director came by a different route to a point which we had debated before namely the role of monetary policy in 1983 and 1984. I put my name last night to your reply which laid out the argument you have used before with me.

I confess, however, that I am less than swept along by your reasoning and would like help in understanding why I am wrong.

In summary I can accept your exposition of 1983 as a reasonable ex-post explanation though I am aware you would think (even if you were too polite to say so) that we should have ex-ante been able to foresee these developments.

My unease centers around one main point. I am unconvinced that there really was great monetary tightness in 1983.

You argue that given the incentives provided by exchange and interest rate behavior there was every reason to put money abroad or into real assets. Notwithstanding yet another sharp jump in velocity money was sufficiently tight to lead to a fall in domestic activity.

I have two problems. First I suspect strongly that the fall in activity was the result of administrative measures and in particular the virtual ban on fixed investment and the stringent control over wage incomes in the socialized sector. It seems to me to be altogether too precious to say that velocity increased by x but by no more, so that activity fell. (For put crudely this is what you seem to say.) In this connection I recall also that a year ago the Yugoslavs argued passionately that the money ceilings were so tight that the harvest would rot in the fields. This did not happen and indeed the margin between actual and permissible credit extension was significant in the fourth quarter.

Second I am unrepentant about the foreign exchange accounts. We classify them as M2 but we surely err if we allow ourselves to think of them as money. Are they not much more akin to the gold coins hoarded by French peasants? I would think that they constitute a form of savings that is way down the line from M1 and more so than their equivalents in some other countries. After all in Yugoslavia there is somewhere an iron fist even if the glove is flabby.

I know you feel that you can establish a relationship between M2 including these accounts and activity but I doubt if it is too robust. On the contrary I would think that there remains an argument for tight monetary policy--and for erring on the side of tightness--and if this leads to a fall in foreign exchange accounts, then rejoice. There is a long way to go but eventually we should seek the elimination of these accounts or rather their irrelevance, by a combination of interest rate policy and tight money.

Please tell me where I am wrong.

cc: Mrs. Junz
Mr. Mentré
Mr. Boorman

March 20, 1984

Subject: Medium-Term outlook/policy agenda beyond 1984

Summary:

Exchange rate policy and other measures in 1983 produced a satisfactory current account outturn in convertible currencies; interest rate policy in 1984 should reverse the unsastisfactory performance on the capital account from the preceding year. In 1985 and beyond there will need to be a continuation and intensification of efforts to make the current account surplus a sustainable one; the improvement so far cannot be termed fundamental yet. Among the key medium term objectives of the government are a reduction in foreign debt exposure, the development of a unified foreign exchange market, and more generally, an increased reliance on market forces.

1. Exposure to external debt

The external adjustment in the medium term is to be seen against the Yugoslav's objective of reducing its exposure to external debt. The range of possibilities is discussed in Appendix III of the Board paper under scenario 3 (to be distributed to participants in Geneva). A modest interpretation of this objective is given, namely that the dollar value of the Yugoslavia's outstanding foreign debt should remain stable over the next several years. A current account surplus is thus required given the need to build up the reserves in the years beyond 1984. Nevertheless, unless the compression of imports has been overdone to a greater extent than is evident so far, the growth performance in the second half of the 1980s should be notably better than in the first half. (The extent to which this growth potential is realized, and with it an easing of the difficult unemployment situation, will depend on the authorities' success in stimulating the inter-regional mobility of labor and capital resources.)

2. Prospects for the external sector

During the 1981-83 stand-by period a substantial current account deficit in convertible currencies was transformed into a surplus through a compression of merchandize imports throughout the period (-37 percent in volume terms over the last three years; the decline in total merchandize imports including those from the non-convertible area is less pronounced), and a substantial increase in exports in 1983. The aggressive exchange rate policy in 1983 produced a powerful incentive to expand exports, only part of which has so far been reflected in the volume and structure of export production. What is required is to elicit a full response to this incentive. The growth of industrial output has thus far not been concentrated in industrial branches oriented towards the production of exports (Chart 4 of Board paper) or of import substitutes. Until this happens the improvement in the current account cannot be regarded as a fundamental one. That is, adoption of a growth-oriented policy strategy would at this stage only cause the external imbalance to re-emerge. Thus, in the period beyond 1984 the focus of policy will need to be concerned not so much with further increases in the current account surplus but on changes in the structure of production and consumption that will consolidate the external improvement. This entails not only a shifting of resources to the tradable goods sector but within that sector away from unviable enterprises and lines of production to the more efficient ones.

3. Greater efficiency of resources allocation

a. Foreign exchange:

In order to enhance the economic gains from a given increase in foreign exchange earnings, the Yugoslav authorities have committed themselves to the medium-term objective of developing a unified, i.e. nationwide, foreign exchange market. Political sensitivities, owing especially to the uneven regional impact of changes to the present foreign exchange allocation system, make progress in this area unusually diffcult. (Referred to the two studies of the foreign exchange allocation system.) However, the inefficiencies that the fragmentation of the foreign exchange market has entailed has been lessened by the large move in 1983 in the direction of a market-clearing exchange rate. More such movement may be necessary after 1984.

b. Mobility of capital and labor

There is a need to reduce the various formal and informal mechanisms for transferring resources from profitable to financially weak or inefficient enterprises. Policy elements of the 1984 program that have this aim will be assessed, including the reduction of federal export subsidies (that distort exchange rate signals), the reduction of subsidies through joint reserve funds (that distort market signals more generally), using wage policies to induce a shift of labor from ailing enterprises, and a more rational interest rate policy to encourage an efficient allocation of financial resources.

4. Need to make policy instruments more effective

a. Fiscal policy:

Yugoslavia is in the process of harmonizing the tax policy of the various republics and provinces. In 1985 and beyond this should make it possible to wield conventional fiscal policy instruments at a centralized level more effectively than before. Also, more is to be done in the next few years that would allow tax policy to exert an influence over the development of the larger proportion of household income than is now possible.

b. Monetary policy:

Further efforts to make monetary policy more effective (i.e. apart from the beneficial impact of the rise in interest rates over the next year) will be needed in the medium-term. Ways will need to be found to breakdown barriers to interregional financial flows, but of course the political obstacles are daunting.

c. Incomes policy:

As noted in the Board paper a social compact on incomes policy is being worked out but it is uncertain whether incomes policy can be counted on in contributing to a stabilization program.

d. Investment policy:

A methodology is being worked out with the World Bank for assessing priorities for investment projects. Greater selectizity should result, which will boost the efficiency of investment.

To: The Managing Director March 20, 1984

From: L.A. Whittome

Subject: Yugoslavia - Telex to Manufacturers Hanover

I attach for your signature a telex to the President of Manufacturers Hanover regarding an extension of the standstill period for Yugoslavia. We have today received notice that the Federal Assembly and Federal Executive Council have formally approved the proposed stand-by arrangement. It is now anticipated that the proposed terms and conditions for the refinancing of principal payments due on bank loans will be sent to banks represented by the ICC in late March and that all agreements will be signed between late May and mid-June.

Att.

cc: Deputy Managing Director
Mr. Schmitt
Mr. Boorman
Mr. Collins

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WASHINGTON, D. C. 20431

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Mr.. Harry Taylor
President
Manufacturers Hanover Trust Company
New York, N.Y.

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cc: Mr. Polak

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We understand that discussions between the Yugoslav authorities and the commercial banks represented in the ICC on the terms and conditions for the refinancing of principal payments on medium and long-term debt falling due to banks during 1984 are proceeding but will not be completed before the March 31 expiration of the standstill period previously agreed to. We have been informed that an extension of the standstill period to end June 1984 has been proposed to allow time for completion of thes~ discussions and that the ICC intends to recommend approval thereof, simultaneous with information to banks on the terms and conditions of the proposed refinancing arrangement.

Negotiations between Yugolavia and the Fund staff have now led to an agreement on a policy package in support of which the authorities have requested a one year stand-by arrangement with the Fund. I intend to recommend approval of this agreement and expect Board

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TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): J. Boorman EXT.: 8866 DEPT.: EUR DATE: Mar.21,1984

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

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action on the program in mid-April. As you know, Yugoslavia's adjustment efforts have already led to a significant improvement in the current account with the convertible currency area in which a surplus of nearly $300 million was recorded in 1983. The aim of the policy package for 1984 is to further strengthen this position while at the same time placing particular emphasis on measures to improve the capital account.

It is important that all elements of the financial support arrangements for Yugoslavia fall into place on the tentative schedule now foreseen by the ICC, by Governments and by the Fund. Therefore, I support the proposal for an extension of the standstill ~eriod in line with the continued efforts to finalize the financial package for 1984 during that period.

Regards.

J. de Larosiere

Interfund

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cc: LAW
Mr. Mentré
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WASHINGTON, D. C. 20431

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MR. RADOVAN MAKIC
NATIONAL BANK OF YUGOSLAVIA
BELGRADE
YUGOSLAVIA

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CC: MR. POLAK

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THANK YOU FOR YOUR TELEX DATED MARCH 20, 1984, CONFIRMING THAT THE LETTER OF INTENT HAS BEEN APPROVED BY THE GOVERNMENT AND THE FEDERAL ASSEMBLY, AND SIGNED BY YOU AND MR. KLEMENCIC. WE ACCEPT YOUR SUGGESTED CORRECTIONS; AND NOTE YOUR ACCEPTANCE OF OUR PROPOSED CORRECTIONS. WE TAKE YOUR TELEX AS SUFFICIENT BASIS TO PROCEED, AND AWAIT RECEIPT OF THE ORIGINAL OF THE LETTER IN GENEVA THIS COMING WEEK-END.

REGARDS AND BEST WISHES,

HANS SCHMITT

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D DRAFTED BY NAME (TYPE): HANS SCHMITT EXT.: 72933 DEPT.: EUR DATE: 3/20/84

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INTERFUND WASHINGTONDC

ORIG: MR. SCHMITT
CC: MR. POLAK

FOR MR. H.SCHMITT, EUROPEAN DEPARTMENT.

LETTER OF INTENT APPROVED BY THE GOVERNMENT AND FEDERAL ASSEMBYL, AND SIGNED BY MESSRS R.MAKIC /LEFT/ AND V.KLEMENCIC/ RIGHT/. CORRECTIONS SUGGESTED IN YOUR CABLE OF MARCH 12,1984 INCLUDED IN THE LETTER ITSELF AND THE TECHNICAL ANNEXES. ALSO, THE LAST SENTENCE OF PARAGRAPH 4 SCHOULD READ:''IT ALSO REQUIRES THAT MANY PRODUCTION PROGRAMS AND ENTERPRISES IN THE DECLINING SECTORS RETRENCH OR BE PHASED OUT AS THOSE IN PRIORITY SECTORS EXPAND.'' LETTER WILL BE SENT THROUGH THE YUGOSLAV EMBASSY IN WASHINGTON. WE WOULD APPRECIATE IF YOU RECONSIDER THE POSSIBILITY OF INCRE-ASING THE TOTAL AMOUNT UNDER THE STAND- BY ARRANGEMENT.

BEST REGADS, MAKIC
NARODNABANKA JUGOSLAVIJE BEOGRAD

440040 FUND UI

REPLY VIA ITT

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WASHINGTON, D. C. 20431

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MR. RADOVAN MAKIC

NATIONAL BANK OF BELGRADE

BELGRADE

YUGOSLAVIA

MARK XX FOR CODE

( ) CODE

DISTRIBUTION

CC:MR. POLAK

START TEXT HERE

WE HAVE AS YOU ASKED REVIEWED THE AMOUNT AVAILABLE UNDER THE PRESENTLY PROPOSED STAND-BY ARRANGEMENT, BUT IN VIEW OF THE DRAWINGS ALREADY OUTSTANDING TO YUGOSLAVIA AND THE NEED FOR EQUAL TREATMENT AMONG FUND MEMBERS, WE FIND IT IMPOSSIBLE TO GO BEYOND THE SDR 370 MILLION PREVIOUSLY SPECIFIED TO YOU.

KIND REGARDS,

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MR. RADOVAN MAKIC
NATIONAL BANK OF BELGRADE
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SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

Office Memorandum

March 20, 1984

MEMORANDUM FOR FILES

Subject: Yugoslavia--Geneva Meeting

Mr. Guetta phoned to say that "the Swiss" had suggested he attend to report on the meeting of potential creditors that he chaired. He also will be in Geneva on Saturday.

L.A. Whittome

cc: Mr. Schmitt
Mr. Boorman

cc: CED

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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MRS. GORDANA HOFMANN
NATIONAL BANK OF YUGOSLAVIA
BELGRADE
YUGOSLAVIA

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DISTRIBUTION
CC: MR. POLAK

START TEXT HERE

PLEASE TELEX THE LETTER OF INTENT AS SOON AS IT IS SIGNED. WE CANNOT ISSUE THE REPORT TO THE EXECUTIVE BOARD WITHOUT HAVING IT ON HAND. THANK YOU.

BEST REGARDS,

HANS SCHMITT

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Schmitt

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SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA
FEDERAL SECRETARIAT FOR FINANCE
11070 BEOGRAD

ORIG: EUR
CC: MD
DMD
MR. POLAK
ETR
FAD
LEG
RES
SEC
TRE
MR.S.COLLINS

Belgrade, March 20, 1984

Dear Mr. de Larosiere,

1. The stabilization program which we pursued over the last three years, and which was supported by a stand-by arrangement with the Fund, has begun to show substantial results. In particular, the deficit on external current account in convertible currencies, after reaching a peak of US$3,3oo million in 1979, was turned into a surplus of US$3oo million in 1983. The swing in the last year alone came to about US$1,9oo million. Part of this improvement was due to changes in the regional distribution of trade, and to a compression of imports, neither of which can be continued in 1984. The underlying adjustment, nevertheless, will in our judgment permit a further improvement in the external current account to a surplus in 1984 of at least US$5oo million.

2. Developments in the external balance on capital account have been less satisfactory; as a result the increase in external reserves which we had targeted at the beginning of 1983 did not materialize. The most disappointing among the reasons for this outturn has been a swing in transitory items from a surplus of US$66o million to a deficit of perhaps as much as US$1,2oo million, which nearly offset the whole of the improvement in the external current account. Apart from safeguarding the momentum of improvement in current transactions, therefore, our program for 1984 places particular emphasis on measures to improve the balance on capital account, so as to ensure an increase in official external reserves of at least US$5oo million.

3. Final domestic demand was cut back by 4 percent in 1983, and though exports to the convertible currency area began to respond forcefully to the gain in competitiveness during the year, gross social product (GSP) still showed some decline. A further reduction in domestic demand will again be necessary for balance of payments reasons in 1984, but as exports continue their recovery we expect that any tendency for GSP to decline will be reversed. The program we have adopted to reach these objectives is set out below. In support of it we request, on behalf of the Federal Executive Council of the Socialist Federal Republic of Yugoslavia; a stand-by arrangement with the Fund in an amount equivalent to SDR 37o million.

Price Policy

4. We see the program for 1984 as a stage in a longer-term stabilization process. Operating at normal capacity, the economy a few years ago ran a deficit on external current account that could not be financed on a sustainable basis. It can return to normal capacity production with external balance only after the structure of production has shifted sufficiently away from sectors that supply mainly domestic markets to sectors that can supply external markets as well. Such structural change entails temporary inflationary pressure as prices in priority sectors rise relative to those elsewhere. It also requires that many production programs and enterprises in the declining sectors retrench or be phased out as those in priority sectors expand.

5. For structural adjustment to take place as smoothly and as rapidly as possible relative prices need to be flexible. In recognition of this point a selective price freeze was allowed to lapse in July 1983, despite the additional push to inflation that it entailed. However, as price adjustments began to show a tendency toward overshooting around the turn

of the year, a new price freeze was imposed effective December 23, 1983. Following a cooling off period, this freeze will now be lifted no later than May 1, 1984. From then on the proportion of industrial output free of price control will be expanded from the 45 percent in effect before the latest freeze, to at least 55 percent, leaving some 35 percent with prices subject to approval by the relevant authorities, and lo percent with prices set by the authorities directly.

6. The latest price freeze was preceded by increases particularly in railway and in electricity tariffs to bring them closer to economic levels. Further increases in relative prices in key sectors, notably railways and electric power, are planned for later in 1984 and in the years beyond. Periodic checks will ensure that, for the remainder of 1984, both railway and electricity tariffs will do no less than keep pace with increases in producer prices, and that prices of natural gas, oil and oil derivatives rise no less than the dinar exchange rate of the dollar (Annex I). We expect that more frequent and gradual adjustments to administered prices such as are now planned will help to avoid future shocks to the general price level.

Exchange Rates

7. Exchange rate depreciation was one of the important elements in the stabilization program for 1983. By raising the dinar price of exports above producer prices realized at home, it was to provide the major incentive for shifting production toward exports and import substitutes, and thus to permit a return to capacity production with external equilibrium. To calm price expectations, the monthly depreciation of the exchange rate was temporarily discontinued around the turn of the year. However, to achieve a level of competitiveness adequate for a substantial liberalization of our trade and

payments system, we shall by June 3o, 1984 reach a target real depreciation of about 25 percent since the start of 1983, and hold it there by monthly adjustments sufficient to compensate for inflation differentials from the start of 1984 (Annex II).

8. We have already acted to expand the scope of a unified foreign exchange market. As of the beginning of this year, 54 percent of foreign exchange receipts from the export of goods and nonfactor services is transferred through authorized banks to an account in the National Bank of Yugoslavia to cover specified payments needs, including collective needs in the republics and provinces. The remaining 46 percent is divided into two parts. One part is retained by net exporters to meet their direct and indirect foreign exchange requirements. The rest is sold to authorized banks, which will offer it for sale to net importers or to other banks in the foreign exchange market. Enterprises that cannot service external debts from their own resources or those of associated enterprises may draw in turn on those of their own bank, other banks in the republic or province in which they reside, other banks in the country at large, or the National Bank of Yugoslavia.

9. This is as far as we have carried the liberalization of our payments system to date. We are conscious that, as the flow of foreign exchange to Yugoslavia is normalized, further progress will be possible, based on the consent of those who earn the foreign exchange and to whom it therefore belongs. An official review will be considered in the Assembly of the SFRY by mid-year. We have also consented to a separate study of the operations of the present system by a group chaired by the International Monetary Fund with the assistance of expert consultants from inside and outside Yugoslavia. This study will be completed not later than August 31,1984, before the review of the stand-by arrangement specified in paragraph 24, to help in defining any further measures that may be deemed necessary to improve the efficiency of the system.

Financial Discipline

1o. The restructuring of the economy that will permit a rapid expansion of economic activity without external risk, needs to be accelerated if inflationary pressures are to be contained. To this end the real resources available for subsidizing firms, some of which should be phased out, need to be reduced. The annual contributions into Joint Reserve Funds for 1984 were already determined before new directives could be implemented (Annex III). However, we have arranged that the percentage increase in payments from such funds during 1984 will be limited to one-half the percentage increase in the retail price index over a year earlier. Greater selectivity will be required in the choice of enterprises to be supported, so as to help accelerate structural change.

11. We are also requiring that basic work units, whose deficits caused the 1983 consolideted accounts of the enterprise to show losses, limit the percentage year-on-year growth in their personal income payments in 1984 to two-thirds the growth in the personal income payments in the socialized sector of the republic or province in which they are domiciled. Similarly, with effect from July 1, 1984, illiquid basic work units in enterprises that fail to meet their obligations to creditors when due, will be required until they are again current in their debt service obligations, to limit the percentage year-on-year growth in their personal income payments per employee, to one-half the percentage growth in the personal income payments per employee in the socialized sector of the republic or province in which they reside.

Interest Rates

12. The acceleration of inflation last year frustrated our efforts to raise interest rates on dinar deposits to more nearly positive levels in real terms. Nominal rates on such

deposits were to have been increased substantially at the end of last year, but were left unchanged at their levels of February 1983. Disregarding the strictly temporary complication introduced by the price freeze, such interest rates accordingly remain substantially negative in real terms, and disadvantage those who switch foreign exchange into dinars. By encouraging delays in payments from abroad, such a situation reduces the supply of foreign exchange for imports. A shortage of imports in turn exacerbates the inflationary pressures that we intend to reduce.

13. A decisive move to raise nominal rates on dinar deposits to more competitive levels has therefore been decided upon. Competitive levels would normally be defined as the yield in dinar terms of deposits abroad of comparable maturity. As exchange rate changes are only to equalize inflation differentials, following a corrective adjustment, the twelve-month change in producer prices plus a target real rate will do equally well. The difference between the initial rate on dinar deposits of three months and the target rate so defined, will be eliminated by April 1, 1985 in progressive installments starting May 1, 1984 (Annex IV). The discount rate and other lending rates of the National Bank of Yugoslavia will be similarly adjusted.

14. A firm timetable for interest rate increases has been set to ensure the attainment of our objectives. Negative real interest rates are an instrument for subsidizing borrowers, the real value of whose debt falls as prices rise, at the expense of depositors, the real value of whose deposits diminishes for the same reason. Unrealistically low interest rates help to maintain uneconomic enterprises, and in view of their adverse impact on external capital flows, they do so in a particularly damaging way. Their correction must nevertheless be phased in order to allow time for the necessary adjustments, and to be accompanied by measures, which we have instituted, to improve the financial structure of

viable enterprises, that relied too heavily on debt financing in the past.

Credit Ceilings

15. Credit ceilings will again be required to ensure that the total claims on resources in the economy do not exceed the available supply, and that within this constraint priorities are clearly defined and enforced. In the process, structural adjustment will again be advanced and inflationary pressures moderated. During 1983 the stock of broad money declined by some 12 percent in real terms, due in part to a rate of inflation that turned out to be higher than originally assumed. A certain degree of flexibility was provided by the exclusion from the ceilings on net domestic assets of the banking system, by which monetary policy is defined, of valutation changes in net foreign liabilities and in foreign exchange deposits, but not so much as to thwart the intended effect of the ceiling.

16. Because of the uncertainty regarding inflation, we have again chosen to define our monetary ceilings in terms of the net domestic assets of the banking system, excluding valuation changes on net foreign liabilities and on foreign currency deposits. In fixing them for 1984 we have also taken into account the probable effects of interest rate increases on the desire to hold money. On this basis we calculate the ceiling for end-December 1984 at Din 4,633 billion compared with Din. 3,942 billion a year earlier. A quarterly phasing of this increase through the year has been set (Annex V). Within each total, allowance is made for the planned increases, described below, in the net asset position of the public sector with the banking system.

Public Finance

17. The public sector will continue to contribute substantially to the improvement in the external balance, and to the moderation in inflationary pressure, by further reducing both its revenues and expenditures in real terms. For the republics and provinces, the cumulative quarterly year-on-year increase in revenue for general and collective consumption will be limited to 75 percent of the cumulative year-on-year percentage rise in total income of the socialized sector, except for the first quarter in which revenues are not to exceed their nominal level in the last quarter of 1983. Although federal and other revenues are exempt from this limit, the quarterly increase in total public sector revenue will be limited to 85 percent of the increase in the retail price index over the previous year, and will be monitored in that way (Annex VI).

18. Over the past few years public expenditures have risen even more slowly than revenues, and net assets with the banking system have accumulated commensurately. The increase in such assets was due in part to the requirement to deposit excess revenue in blocked accounts set up under the last stand-by arrangement. This practice permitted a larger expansion of credit to the productive sector within a given overall credit ceiling. To serve the same purpose more simply in 1984 we have set a minimum level for the public sector's net assets with the banking system, phased quarterly over the year. The amount of the increase, at Din 4o billion, is comparable to the 1983 performance in relation to public sector revenue as presently forecast (Annex VII).

19. Expenditure restraint will be concentrated on the payment of subsidies, particularly on subsidies to exporters who will receive sufficient stimulus by way of the exchange rate. Specifically, payments to export producers by the Community of Interest for Foreign Economic Relations, other than the customs duty drawback and the contribution to agricultural support funds, will be progressively reduced or

eliminated in 1984. There will be no change in the proportion of import duties and fees credited to that Community. The resulting surplus revenues of that Community will be channeled into the blocked accounts set up under last year's stand-by arrangement. These deposits will not add to the growth already stipulated for the public sector's net assets with the banking system; they will rather be a component of it.

External Debt

2o. We expect by these various measures to reach, and even to exceed, our external current account objectives and also to improve our performance on capital account. We are determined to begin reducing our external debt as soon as possible. Gross borrowing last year came to the equivalent of about US$4.3 billion; we expect to limit our requirements this year to US$ 3.3-3.5 billion (Annex VIII). To secure this amount we have again entered into arrangements with a group of creditor governments and banks to refinance debt falling due, and expect to draw a limited amount of fresh money to build up the reserves. We will make the progressive buildup of our reserves, by a total of US$5oo million, a test of the success of our program (Annex IX).

21. Despite the scarcity of resources a certain outflow of capital from Yugoslavia is normal and acceptable. However, the outflow of export financing and short-term capital of roughly US$2.o billion in 1983 was clearly excessive. We will spare no effort to reduce such flows to no more than US$5oo million in 1984, and to cover them by an equivalent surplus on current account in convertible currencies. One central element in achieving this reduction in capital outflow is our move to an active interest rate policy. In addition, we have intensified the application of controls on the repatriation of export earnings. If exporters fail to repatriate export proceeds within 9o days their credit line for that export will be withdrawn.

22. We have also decided to facilitate an accelerated drawdown on external lines of credit, particularly of the supplier credits granted by the Berne group of governments. The administrative regulations governing their utilization proved too restrictive in 1983. In order to ensure the availability of foreign exchange to repay the foreign credits, drawings were made available only to exporters who had proof of export orders in hand, and raw material imports financed by supplier credits have had to amount to less than 5o percent of the value of the export into which they entered. Along with the improvements in the foreign exchange allocation mechanism, the close link has now been broken between exports and imports in the allocation of external credits, so as to allow the financing of imports of general interest to the economy.

Other Matters

23. The Federal Executive Council of Yugoslavia does not intend to introduce any multiple currency practices or introduce new or intensify existing restrictions on payments and transfers for international transactions or enter into any bilateral payments arrangements with Fund members. A limitation on the export and import of dinars for travel to Din. 1,5oo per person for the first trip, and to Din 2oo per person for each subsequent trip within one year, has helped to reduce illegal currency transactions, and will be removed as soon as circumstances permit. The Federal Executive Council does not intend to introduce new restrictions or intensify existing restrictions on imports for balance of payments reasons.

24. The Federal Executive Council believes that the policies set forth in this letter are adequate to achieve the objectives of its program but will take any additional

measures that may have become appropriate for this purpose. The Yugoslav authorities will review economic developments in 1984 with the staff of the Fund on a quarterly basis. They will consult with the Fund as soon as is practicable after September 1984, and in any case not later than November 3o, 1984 in order to review developments under the program and to reach such understandings with the Fund as may be necessary including such modifications of the performance criteria that may be appropriate. Finally, the Federal Executive Council will consult with the Fund, in accordance with the Fund's policies on consultations, on the adoption of any measures that may become appropriate.

Yours sincerely,

Radovan Makić
Governor, National bank
of Yugoslavia

Vlado Klemenčič
Federal Secretary for
Finance

TECHNICAL MEMORANDA

1. Price Adjustments
2. Calculation of the Index of the Exchange Rate
3. Financial Discipline in the Enterprise Sector
4. Interest Rates of Yugoslav Banking System
5. Domestic Assets of the Yugoslav Banking System
6. Public Sector Revenue Ceiling
7. Net Assets of the Public Sector with the Banking System and the Blocking of Excess Revenue of the Community of Interest for Foreign Economic Relations in the National Bank of Yugoslavia
8. External Borrowing Limits
9. Balance of Payments Test

Subject: Technical Note on Price Adjustments

1. Railway tariffs will be increased periodically in the course of 1984 such that, on average, they are at least 10 percent higher than the average level of railway tariffs at the end of December 1982, multiplied by the index of industrial producer prices expressed with a base of December 1982 equal to 1.00, as indicated below:

Average railway tariffs shall be a minimum of 10 percent higher than the average at the end of December 1982, multiplied by the index of industrial producer prices, with a base of December 1982 equal to 1.00, for the month of:	Corresponding average level of tariffs to be made effective not later than:
April 1984	June 30, 1984
October 1984	December 31, 1984

For the purpose of this calculation, the increase in freight rates and in passenger fares are assumed to have weights of 80 percent and 20 percent, respectively, in the share of railway revenue.

2. Electricity tariffs will be adjusted periodically in the course of 1984 such that the adjusted electric power subindex of the industrial producer price index, with a base of March 1983 equal to 100, is at least 15 percent higher than the industrial

producer price index that covers the same length of time, but with a lag of one month, as shown below. For this purpose the industrial producer price index is expressed with a base of February 1983 equal to 100.

The adjusted electric power price index (March 1983 = 100) for the month of:	Shall be at least 15 percent higher than the industrial producer price index (February 1983 = 100) for the month of:
April 1984	March 1984
December 1984	November 1984

3. The adjusted electric power subindex for a specified month is equal to the official electric power price subindex also expressed with a base of March 1983 equal to 100, divided by the seasonal coefficients. The seasonal coefficients listed below permit a comparison of electricity tariff schedules between months involving both winter and summer tariffs. In particular, the coefficients indicate what the relative movement of the publisched electricity price index would have been in the course of 1983, if there had not been increases in the set of tariff schedules but only the usual shifts between winter and summer tariffs.

ANNEX I

Seasonal coefficients

January	1.210
February	1.210
March	1.000
April	0.871
May	0.879
June	0.879
July	0.879
August	0.879
September	1.081
October	1.210
November	1.210
December	1.210

4. The average producer prices of domestic natural gas, of crude petroleum and of petroleum products (including gasoline, kerosene, diesel oil, fuel oil and LPG) will be increased on a quarterly basis by no less than the percentage increase in the dinar/U.S. dollar exchange rate in the course of 1984, as shown below:

Minimum Percentage Increase in Each of the Domestic Natural Gas, Crude Petroleum, and Petroleum Products Prices Over Those in Effect as of January 31, 1984

Equal to the percentage increase in the exchange rate, dinars per U.S. dollar, from December 31, 1983 until:	To be made effective no later than:
March 31, 1984	April 30, 1984
May 31, 1984	June 30, 1984
August 31, 1984	September 30, 1984
November 30, 1984	December 31, 1984

ANNEX I

5. The price adjustments specified in paragraphs 1-4 above are understood to be minima and will not bar other increases in prices in real terms that may be agreed upon with the World Bank.

6. A record of the price increases stipulated in paragraphs 1-4 will be published, as they take place, in the Official Gazette of the Socialist Federal Republic of Yugoslavia or in the official gazette of the relevant republic or province.

ANNEX II

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

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

1. The real exchange rate of the dinar is expressed as 0.35 (deutsche mark per dinar) plus 0.24 (Italian lire per dinar) plus 0.15 (U.S. dollars per dinar) plus 0.12 (French francs per dinar) plus 0.06 (Austrian schillings per dinar), plus 0.04 (Swiss francs per dinar) plus 0.04 (pounds sterling per dinar) with a base of December 31, 1983 equal to 100 for each bilateral exchange rate of the dinar, multiplied by the ratio of an index of the movements in Yugoslavia's industrial producer prices to a weighted index of the movements in industrial producer prices in the foregoing seven countries as specified in section 3 below.

2. 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 December 31, 1983.

3. The weighted index of industrial producer prices in the foregoing seven countries is defined as 0.35 (index of German prices for industrial products) plus 0.24 (index of Italian wholesale prices) plus 0.15 (index of U.S. wholesale prices for industrial goods) plus

0.12 (index of French prices of industrial goods) plus 0.06 (index of Austrian wholesale prices) plus 0.04 (index of Swiss prices for home goods) plus 0.04 (index of U.K. prices of industrial output) 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 December 31, 1983.

4. 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. No later than 10 days after the end of each month, the following data as of the end of the month will be telexed to the Fund: dinar exchange rates of each of the seven foreign currencies, and the indices of the nominal exchange rate, the real exchange rate, Yugoslav industrial producer prices, the weighted average of seven foreign industrial price indices, and relative industrial prices, where each index is expressed with a base of December 31, 1983 equal to 100.

5. The index of the real exchange rate of the dinar, with a base of December 31, 1983 equal to 100, will be no higher than 110.4 at the end of March 1984, no higher than 105.8 at the end of April and end of May 1984, and no higher than 101.3 at the end of June 1984 and at the end of each month thereafter. A margin of error of 1.0 percentage point will be acceptable.

Subject: Technical Note on Financial Discipline in the Enterprise Sector

1. For the purpose of this agreed memorandum, a loss-making enterprise is understood to mean any work organization in the socialized sector, which for the calendar year 1983 registered a financial loss in its annual financial report to the SDK, as determined before taking into account any outside grants, subsidies, or credits which may be used to cover such losses. Cumulative quarterly limits on personal income payments will apply to all loss-making basic organizations of associated labor (BOAL) within each loss-making enterprise for the periods shown below and will be calculated such that the percentage increase in total payments of personal incomes by all such loss-making BOALs over the corresponding period of the preceding year will be no more than 67 percent of the percentage increase in total payments of personal incomes in the socialized sector in the republic or autonomous province in which the enterprise is domiciled, over a similar period of time but with a lag of one quarter. If an enterprise with a financial loss in 1983 registers a financial surplus for the first nine months of 1984, the above restriction on payments of personal incomes by its BOALs will be lifted in the fourth quarter of 1984 after these results become known.

ANNEX III

	Periods for which the Percentage Increases in Total Payments of Personal Incomes Shall be Calculated	
	Personal Income Payments by Affected Loss-Making BOALs	Personal Income Payments in the Socialized Sector
Second quarter	Jan.-June 1984 / Jan.-June 1983	Oct. 1983-March 1984 / Oct. 1982-March 1983
Third quarter	Jan.-Sept. 1984 / Jan.-Sept. 1983	Oct. 1983-June 1984 / Oct. 1982-June 1983
Fourth quarter	Jan.-Dec. 1984 / Jan.-Dec. 1983	Oct. 1983-Sept. 1984 / Oct. 1982-Sept. 1983

2. For a BOAL with obligations to creditors due and unpaid that is in a similarly illiquid work organization, the percentage growth of payments of personal incomes per employee will be restricted to 50 percent of the percentage growth of payments of personal incomes per employee in the socialized sector of the relevant republic or province. Beginning with the month after such an enterprise has eliminated all payments arrears, the restriction on personal income payments will be lifted, provided that the clearing of arrears did not include grants or borrowing other than bank credit on commercial terms. Legislation to that effect will be implemented by July 1, 1984.

3. Exceptions to the limitations in sections 1 and 2 will be made for loss-making BOALs in the following branches: electricity (0101), coal production (0102), ferrous metals (0107), production of foodstuffs (0130), health and social security (1300), and railways (0601).

ANNEX III

4. Any increase, in nominal terms, in payments (including credit extended) from Joint Reserve Funds, which have been formed outside of any one work or composite organization of associated labor, will be subject to cumulative quarterly limits, such that the percentage increase in aggregate payments from Joint Reserve Funds (including both grants and credits) will be no more than 50 percent of the percentage increase in the retail price index over a similar period of time but with a lag of one quarter, as shown below:

	Periods for which the Percentage Increases in Joint Reserve Funds' Outlay for Grants and Credits and the Retail Price Index shall be Calculated	
	Outlays of Reserve Funds	Retail Price Index
Second quarter	Jan.-June 1984 / Jan.-June 1983	Average (6 mos. to March 1984) / Average (6 mos. to March 1983)
Third quarter	Jan.-Sept. 1984 / Jan.-Sept. 1983	Average (9 mos. to June 1984) / Average (9 mos. to June 1983)
Fourth quarter	Jan.-Dec. 1984 / Jan.-Dec. 1983	Average (12 mos. to Sept.1984) / Average (12 mos. to Sept.1983)

ANNEX IV

Subject: Technical Note on Interest Rates of the Yugoslav Banking System

1. It is agreed that for three-month dinar deposits of households, the interest rate will be adjusted on May 1, 1984 so as to eliminate 40 percent of the difference between the nominal interest rate as of January 1, 1984 and the target nominal interest rate which is calculated as defined in section 2 below. Enterprises will receive the same interest rate on three-month deposits as apply to households. The three-month interest rate will be adjusted on July 1, 1984 to eliminate 55 percent of the difference between the target nominal interest rate as of that date and the rates in effect on January 1, 1984. Similarly, on October 1, 1984 70 percent of the difference, and on January 1, 1985 85 percent of the difference between the interest rate as of January 1, 1984 and the target nominal interest rate on the respective dates will be eliminated. On April 1, 1985 the interest rate for three-month deposits will be set at its target nominal level.

2. The target nominal interest rate for three-month dinar deposits of households and enterprises is equal to the percentage increase in the industrial producer price index over the preceding 12 months plus 1 percentage point. Thus, for the purpose of adjusting interest rates on May 1, 1984 the target rate for three-month dinar deposits will be based on the percentage increase in producer prices from March 1983 to March 1984.

3. The discount rate of the National Bank of Yugoslavia will be increased on May 1, 1984 to the same level as the new three-month dinar deposit rate. Thereafter, the discount rate will be adjusted according to

the method and timing described in section 1 on the basis of the same target nominal interest rate that applies to three-month dinar deposits. Adjustments to interest rates of the National Bank of Yugoslavia on credits for selective purposes will be three-quarters of the contemporaneous adjustment, in percentage points, of the discount rate of the National Bank of Yugoslavia, beginning with the adjustment in May 1984.

4. Any modifications in the schedule of changes in interest rates that in the view of the Yugoslav authorities may become necessary will be reviewed with the Fund in the context of the consultation specified in paragraph 24 of the letter of intent.

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

1. The banking system is defined as the consolidated accounts of the national banks and 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 1983 (In billions of dinars)
Net foreign liabilities	1,202
Plus M2 (money and quasi-money)	2,927
Minus public sector deposits	187
Net domestic assets	3,942

2. In setting the ceiling for NDA the effects of changes in the exchange rate on the net foreign liabilities of the banking system, and on foreign currency liabilities which are included in quasi-money, are excluded by applying the necessary valuation adjustment (cumulative from end-December 1983) to the relevant data. It is understood that the foreign exchange proceeds of any special assistance will be shown both as an asset and a foreign exchange liability of the National Bank of Yugoslavia.

3. It is agreed that NDA for the end of December 1984 shall not exceed Din 4,633 billion compared with the level of Din 3,942 billion at the end of December 1983. Further, the authorities will ensure that NDA will not exceed the ceilings established in the attached Table 1.

ANNEX V

Table 1. Yugoslavia: Credit Ceilings

(In billions of dinars)

		Net Domestic Assets of the Banking System
1984	January-June 1/	4,117
	June 2/	4,239
	July-September 1/	4,378
	September 2/	4,410
	October-December 1/	4,570
	December 2/	4,633

1/ Average of end of month data.

2/ End-month data.

4. Any modifications in the ceilings on net domestic assets that in the view of the Yugoslav authorities may become necessary will be reviewed with the Fund in the context of the consultation specified in paragraph 24 of the letter of intent.

Subject: Technical Note on Public Sector Revenue Ceiling

Public sector revenue for the purpose of this ceiling is defined to comprise revenue of sociopolitical communities plus revenue for collective consumption, which totaled Din 1,172.553 billion in 1983. Cumulative quarterly limits on public sector revenue will apply for the periods shown below and will be calculated such that the percentage increase in public sector revenue over the corresponding period of the preceding year will be no more than 85.0 percent of the percentage increase in the retail price index over the same length of time but with a lag of one quarter, as shown below. A margin of error of Din 2.0 billion will be acceptable.

	Periods for which the Percentage Increases in Public Sector Revenue and the Retail Price Index shall be Calculated	
	Public Sector Revenue	Retail Price Index
Second quarter	Jan.-June 1984 / Jan.-June 1983	Average (6 mos. to Mar. 1984) / Average (6 mos. to Mar. 1983)
Third quarter	Jan.-Sept.1984 / Jan.-Sept.1983	Average (9 mos. to June 1984) / Average (9 mos. to June 1983)
Fourth quarter	Jan.-Dec. 1984 / Jan.-Dec. 1983	Average (12 mos. to Sept. 1984) / Average (12 mos. to Sept. 1983)

Subject: Technical Note on the Net Assets of the Public Sector with the Banking System and the Blocking of Excess Revenue of the community of Interest for Foreign Economic Relations in the National Bank of Yugoslavia

1. The net assets of the public sector with the banking system are defined as total deposits of the Federal Government, other sociopolitical communities and communities of interest for collective consumption with the national banks and basic and associated banks, minus credits (including purchases of bonds and notes) extended by these banks to the said public sector entities. Excess public sector revenue blocked in the National Bank of Yugoslavia in 1983 and after is included in the assets of the public sector. The net asset position of the public sector with the banking system is calculated to equal the sum of the following items in the monetary survey:

	End-December 1983 (In billions of dinars)
1. Deposits of Federal government, other sociopolitical communities and communities of interest for collective consumption with NBY	22.3
2. Excess public sector revenue blocked in accounts with the NBY (excluding deposits of citizens)	4.2
3. Deposits of Federal Government, other sociopolitical communities and communities of interest for collective consumption with basic and associated banks	164.3
4. = (1 + 2 + 3) Total public sector deposits	190.8

5.	NBY credit (including bonds) to Federal Government	83.3
6.	NBY credit (including bonds) to other sociopolitical communities and communities of interest for collective consumption	8.4
7.	Basic and associated bank credit (including bonds) to the Federal Government, other sociopolitical communities and communities of interest for collective consumption	41.7
8.	= (5 + 6 + 7) Total public sector credit	133.4
9.	= (4 - 8) Net asset position of the public sector with the banking system	57.4

2. It is agreed that for 1984 payments from the Community of Interest for Foreign Economic Relations (CIFER) to export producers will be limited as follows. For the customs duty drawback on export production and for subsidies through agricultural funds, rates set in relation to exports will remain unchanged from 1983. Rebates for taxes and contributions out of personal and enterprise incomes, as well as rebates for gasoline coupons for tourists, will be abolished at the end of September 1984. Also, rates of rebates for transportation costs will be halved at the end of September 1984, and subsidies for advertising abroad for tourism and industry will be reduced from 1 percent to o.5 percent of the value of exports by January 1, 1985. Further, it is understood that 59.7 percent of all customs duties and import fees will continue to be credited to the CIFER. Excess revenue of the CIFER will be transferred to the Federal Government's blocked account with the National Bank of Yugoslavia and thus contribute to the increase in the net asset position of the public sector with the banking system.

3. It is agreed that the net asset position of the public sector with the banking system at the end of December 1984 shall be no less than Din 97 billion, compared with Din 57 billion at the end of December 1983. Further, the authorities will ensure that the net position of the public sector with the banking sector shall be no less than Din 6o billion at the end of June 1984, nor less than Din 85 billion at the end of September 1984.

ANNEX VIII

Subject: Technical Note on External Borrowing Limits

In 1984 disbursements on loans with original maturities of more than one year and up to and including 12 years will be limited to a maximum of US$3.5 billion of which no more than US$1.8 billion will be loans with original maturities of up to and including 5 years. Net drawings on short-term credits with an original maturity of up to and including one year will be limited to US$o.5 billion. The limits on all maturities include loans contracted by commercial banks and loans contracted directly or guaranteed by the National Bank of Yugoslavia or any other public sector entity and also include refinancing under multilateral exercises of maturities due in 1984.

ANNEX IX

Subject: Technical Note on the Balance of Payments Test

1. The aim of the program is to achieve an increase in the combined convertible external reseves of the National Bank of Yugoslavia and the commercial banks of at least US$5oo million during 1984. Given the seasonal pattern of the receipts from services and to some extent from exports, the balance of payments is likely to record an overall deficit during the first half of 1984. Nevertheless, foreign reserves as defined below, and adjusted for any increase in short-term debt, which reached the level of US$1,622 million at the end of 1983, will not be allowed to fall below the level of US$1,5oo million at the end of June 1984 and shall increase to at least US$1,8oo million by the end of September 1984, and to at least US$2,122 million by the end of December 1984.

2. Convertible external reserves are defined in the following way:

	(In millions of U.S.dollars; end-December 1983)
National Bank of Yugoslavia	
Reserve position in the Fund	55.o
Holdings of SDRs	--
Gold 1/	78.4
Securities	6o.7
Foreign exchange	86o.5
Total	1,o54.6
Foreign assets of commercial banks	567.o
Total foreign reserves of the banking system	1,621.6

1/ Valued at US$42.22 per ounce.

ANEX IX

3. For the purpose of the calculation of foreign reserves in 1984, any net increase in short-term debt of the banking system with an original maturity of up to and including one year during the period December 31, 1983 to the date in question will be excluded. Short-term debt of the banking system is defined as the sum of short-term debt of the NBY, which amounted to US$176 million on December 31, 1983, and short-term debt of the commercial banks, which amounted to US$964 million on December 31, 1983.

Office Memorandum

MAR 19 1984

Noted
march 19-84

TO : The Managing Director

DATE: March 19, 1984

FROM : L.A. Whittome

SUBJECT : Yugoslavia--Monetary Policy

In your comments on the Yugoslav request for a stand-by arrangement you queried the adequacy of the proposed credit limits. You suggested that a limit on net domestic assets (NDA) that "took account" of higher inflation would not contribute any check to inflation. The following points summarize the thinking behind the position that was taken:

1. in 1983 very tight limits on NDA did not prevent inflation from accelerating from 31 percent during 1982 to 58 percent during 1983 and 80 percent at an annual rate during the second half of 1983. A 12 percent decline in the real stock of money produced instead a 2 1/2 percent decline in GSP. That decline would have been much larger had it not been for a rapid increase in the velocity of money due to a sharp decline in real interest rates;

2. the rate of inflation recorded in 1983 reflects an aggressive exchange rate policy rather than monetary developments. This seems evident from an examination of Chart 2 of the stand-by paper, attached for ease of reference. Short-run disturbances apart, domestic prices have typically followed import prices--as determined largely by exchange rates--with a short lag. The very rapid increase in import prices in 1983 has only begun to be followed by domestic prices. We suspect, therefore, that inflation may very well accelerate in 1984 rather than abate as we have projected. This will not be due to any undue ease in the monetary ceilings, but rather because of a further pass-through of exchange rate effects;

3. an increase in import and export prices in local currency is the deliberate objective of exchange rate depreciation, and must be allowed to spill over into the domestic prices of those industries which produce inputs for the export sector and import substitutes, so as to draw resources into these sectors. A monetary policy in support of such exchange rate depreciation should be tight enough to prevent any increase in prices beyond that which is essential for this purpose, but must not be so tight as to arbitrarily restrict output below what is possible, as exports begin to expand in response to the exchange rate (and price) incentives provided;

4. in calibrating an appropriate expansion of money for this purpose we have had to take account of probable changes in the velocity of its circulation. We have found that changes in the velocity of circulation of M2 have been closely correlated to real interest rates. This is shown in Chart 5 of the stand-by paper which is also attached. Increases in velocity suggest that the public has been shifting from domestic financial assets to inventories of goods and to holding financial assets abroad, and other available statistics support this contention. It is interesting to note that, because real interest rates have been so abysmally negative, there were both capital flows abroad and inventory accumulation at home, despite an acute scarcity of credit and of imports;

5. none of these observations strike us as particularly unusual. They seem the logical consequence of a situation in which exchange rates were set administratively on a steady downward course, and interest rates were fixed administratively and held constant at very low rates in relation to inflation. In such circumstances anyone with access to credit will have to decide what in practice to do with it. If the return is greatest on holding inventories, or financial balances abroad, that is where it will go. This, we believe, was the essence of the situation in Yugoslavia last year. This was not unforeseen and you will recall the long but in the end largely abortive efforts we made last year to have interest rates increased sufficiently to offset these weaknesses. This year by concentrating so very heavily on interest rates this particular weakness should have been corrected. But other weaknesses remain, in particular the system of wage determination--inevitably a difficult political area and a controversial area as well--and the system of foreign exchange allocation where sensible changes run rapidly into the peculiarities of the Yugoslav federal system. But in both these fields the present program has made a beginning which may well have to be taken further next year.

Attachments

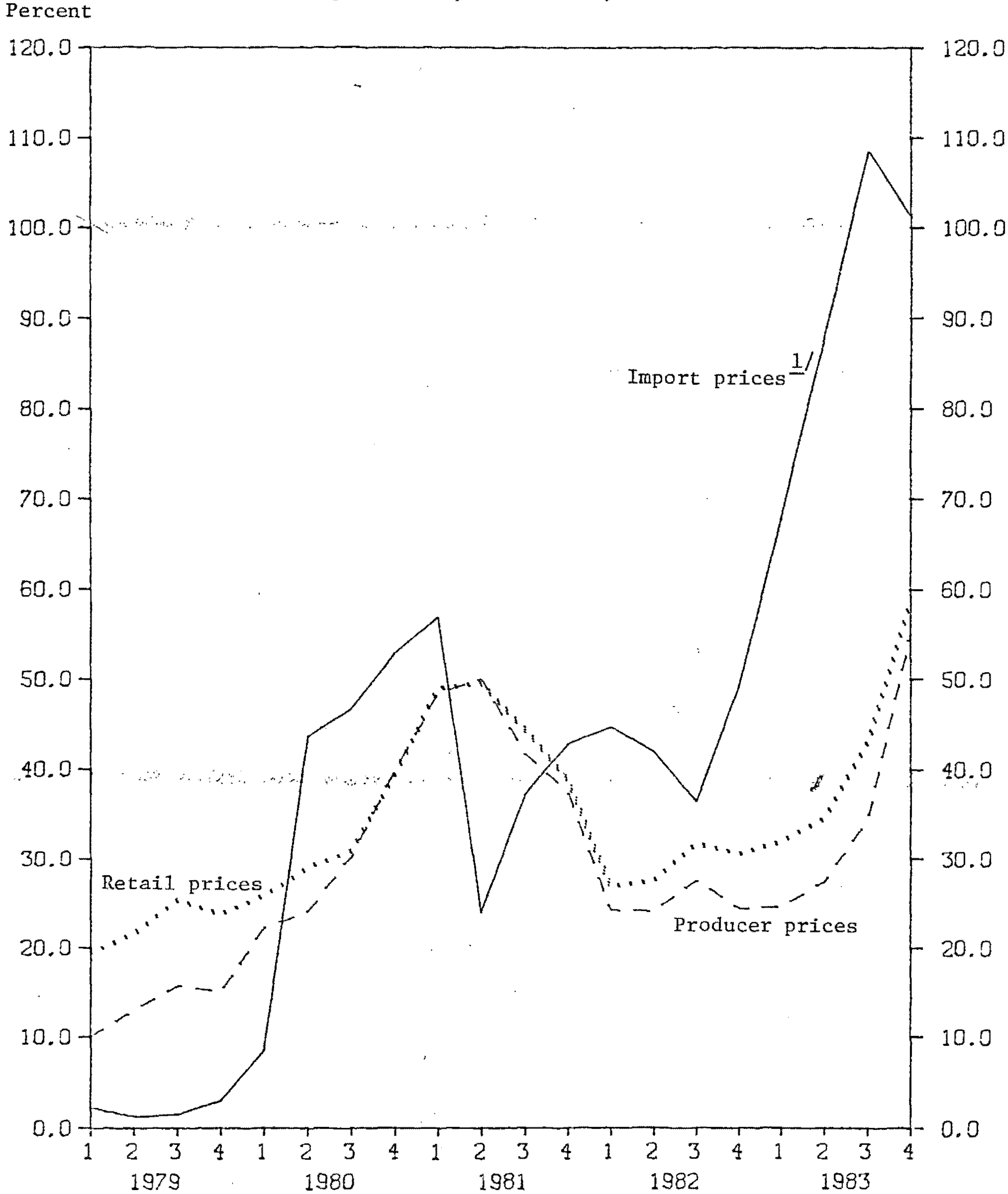
cc: The Deputy Managing Director
Mr. Collins

Chart 2

YUGOSLAVIA

IMPORT PRICES AND DOMESTIC PRICES

(Change from a year earlier)



Sources: Yugoslav authorities; and IMF staff.

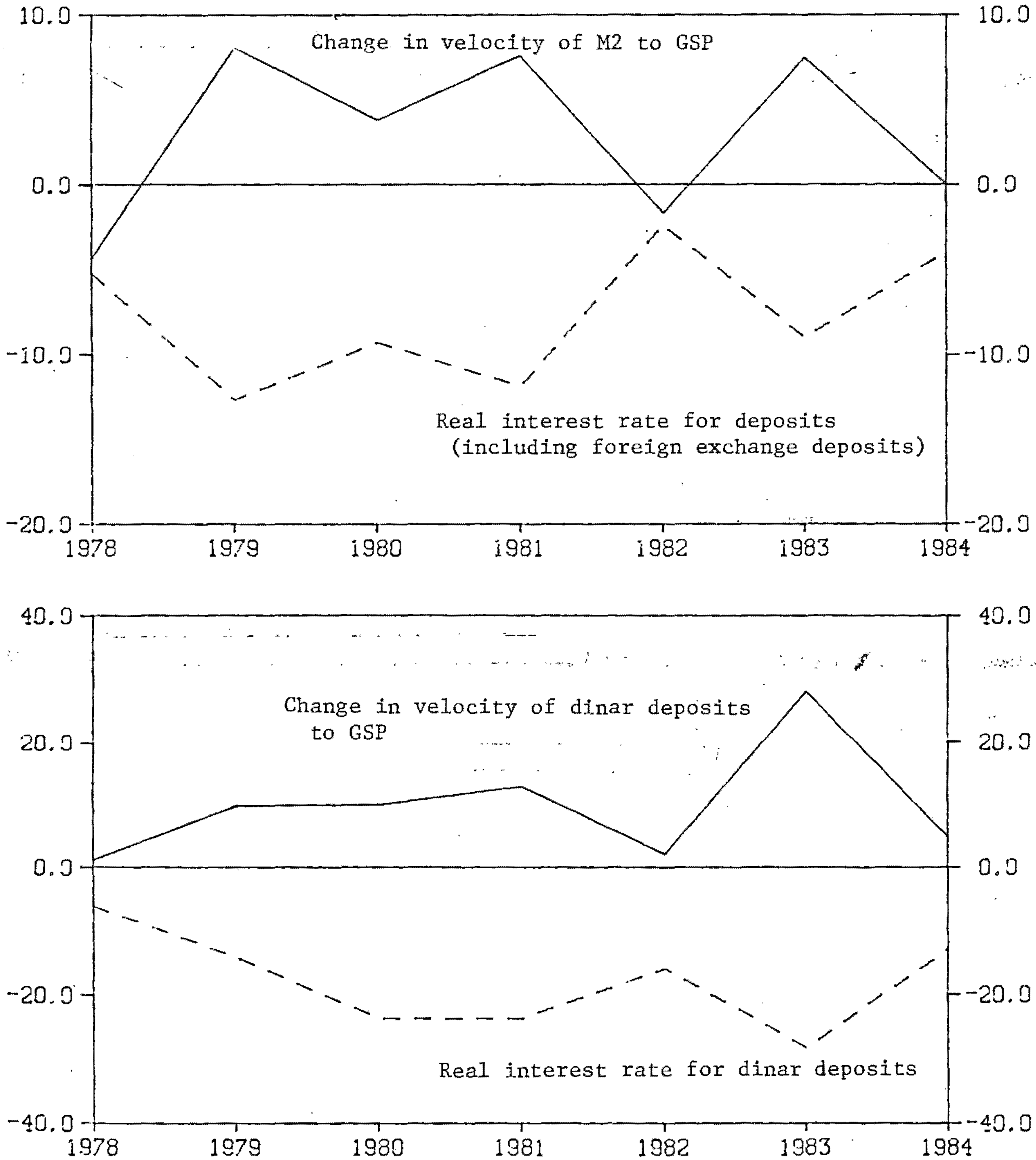
1/ Change in the U.S. dollar rate.

Chart 5

YUGOSLAVIA

VELOCITY OF M2 AND DINAR DEPOSITS TO GSP

(In percent)



Sources: Yugoslav authorities; and IMF staff.

M. Schmitt

Office Memorandum

March 19, 1984

MEMORANDUM FOR FILES

Subject: Yugoslavia - Tables for the Geneva Meeting on March 24, 1984

Attached are five tables that should probably all be distributed at the meeting. Tables 1-3 are the same as those distributed to Executive Directors on March 13, 1984. There are, however, some minor corrections to Table 1 for 1984:

	Given to EDs	Present Table
	(In millions of U.S. dollars)	
Other short-term capital, errors and ommissions	-260	-250
Overall balance	490	500
Use of Fund credit		
Purchases	294	293
Repurchases	284	283
Reserve movements (increase -)	-500	-510

Also, in Table 2 given to the EDs the figure for Government packages for 1984 was erroneously given as US$1,340 million instead of U.S.$1,240 million (the elements adding up to the total were correct). Another change in Table 2 is that the figure for purchases from the IMF in 1984 has been changed from US$294 million to US$293 million and the total has consequently been reduced from US$3,489 million to US$3,488 million.

At the meeting of "friends of Yugoslavia" in Paris in January 1984, several representatives requested medium-term debt projections. At the meeting the Fund representatives distributed summary tables (which by the way contained at least one incorrect figure) and promised to provide more detailed information once the program had been negotiated. The attached medium-term scenario should satisfy this request, and should probably be distributed along with Tables 1-3. Also at the Paris meeting the U.S. representative requested that a table on the so-called "gap-analysis" be provided to their delegation. Such a table was put together by the staff representatives and given to the U.S. delegate, but were subsequently distributed to all delegations. Since this was the case, the updated version of this table (attached) should probably also be distributed at the Geneva meeting. The only information contained in this table in addition to Tables 1 and 2 is a distribution of amortization and interest payments on governments, banks, and others. This distribution is to some extent arbitrary, but probably as good as any that can be provided since the Yugoslavs themselves do not have this information.

Leif Hansen

cc: Mr. Schmitt
Mr. Boorman
Mr. Lewis

Table 1. Yugoslavia: Balance of Payments with the Convertible Currency Area, 1982-84 1/

(In millions of U.S. dollars)

	1982	1983 Revised estimate	1984 Staff Proj.
Exports, f.o.b.	5,526	6,271	7,000
Imports, c.i.f.	9,069	8,069	8,700
Trade balance	-3,543	-1,798	-1,700
Workers' remittances (net)	1,663	1,610	1,550
Tourism (net)	704	875	1,000
Interest payments (net)	-1,692	-1,489	-1,650
Other (net)	1,266	1,101	1,300
Services (net)	1,941	2,097	2,200
Current balance	-1,602	299	500
Medium- and long-term capital	-126	1,140	250
Loans received (net)	51	1,297	450
Drawings	(1,815)	(3,660)	(3,195)
Repayments	(-1,764	(-2,363)	(-2,745)
Loans extended (net)	-177	-157	-200
Short-term capital through the banking system	-506	-670	---
Other short-term capital, errors and omissions	659	-1,234	-250
Overall balance	-1,575	-465	500
Use of Fund credit	563	410	10
Purchases	608	590	293
Repurchases	45	180	283
Reserve movements (increase -)	1,012	55	-510

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

1/ Calculated on the basis of statistical exchange rates of currencies to the U.S. dollar which may result in significant over- or underestimation of balance of payments flows, depending on currency composition and actual movement of currencies against the dollar. Staff calculations suggest that trade flows are underestimated by some 2 percent in 1982 and may be over-estimated by a similar amount in 1983.

Table 2. Yugoslavia: Drawings on Medium- and Long-term Debt in Convertible Currency by Creditor

(In millions of U.S. dollars)

	1983 Estimate	1984 Projection
Government packages	796	1,240
Berne	796	390
Refinancing	(304)	(3)
New financial credits	(132)	(40)
Suppliers' credits	(360)	(347)
Geneva	...	850
Refinancing	(...)	(700)
Suppliers' credits	(...)	(150)
Commercial bank package	1,550	1,200
Refinancing	950	1,100
New financing	600	100
IBRD	280	505
Regular facilities	260	250
SAL	20	255
Other multilateral lenders: IFC, EIB and Eurofima	60	50
Suppliers' credits outside Government packages	974	200
Subtotal	3,660	3,195
IMF	590	293 1/
Total	4,250	3,488

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

1/ Total projected purchases under the stand-by arrangement are equivalent to SDR 370 million, but the final purchase from the Fund will not take place until February 1985.

Table 3. Yugoslavia: Repurchase Obligations and Charges Payable to the IMF

(In millions of SDRs)

	Repurchases			Charges
	Total	Present obligations 1/	Proposed stand-by	
1984	269.31	269.31	—	205.3
1985	322.15	322.15	—	204.1
1986	362.50	362.50	—	173.7
1987	385.76	361.38	24.38	132.5
1988	444.37	322.50	121.87	86.9
1989	360.33	239.46	120.63	42.3
1990	155.39	97.88	57.51	13.2
1991	40.01	—	40.01	2.7
1992	5.63	—	5.63	0.2
Total	2,345.18	1,975.18	370.00	860.9

Source: Fund staff estimates.

1/ Including repurchases under the Compensatory Financing Facility of SDR 103.9 million in 1984 and SDR 17.3 million in 1985.

Table . Yugoslavia: Medium-Term Scenario 1983-90 1/

(In millions of U.S. dollars)

	1983	1984	1985	1986	1987	1988	1989	1990
Current account balance	299	500	700	500	450	450	400	350
Gross medium- and long-term borrowing	3,660	3,195	2,895	3,250	3,154	3,227	3,371	3,553
Of which: Additional borrowing on commercial terms	600	--	365	1,795	1,804	1,877	2,021	2,203
Amortization of medium- and long-term debt outstanding at end-1983	2,363	2,745	2,385	2,770	2,450	1,720	880	410
Amortization of new borrowing	--	--	167	300	450	1,192	2,214	2,930
Interest payments	1,489	1,650	1,652	1,629	1,624	1,621	1,620	1,624
Total debt outstanding at year end	19,525	19,985	19,685	19,585	19,535	19,485	19,485	19,535
Debt service ratio (percent of foreign exchange earnings)	32.8	34.9	31.9	33.1	30.4	29.0	27.8	26.4
Ratio of total debt to GSP	45.2	47.7	43.0	38.9	35.8	33.0	30.5	28.3
Real GSP growth (in annual percent change)	-2.5	0.6	5.1	5.7	4.2	4.1	4.0	3.9
Memorandum items:								
Export volume growth (annual percent change)	13.6	9.4	6.2	4.0	4.0	4.0	4.0	4.0
Increases in reserves (-)	55	-510	-200	-200	-200	-200	-200	-200
Amortization payments on refinancing packages	--	--	--	530	530	1,044	1,121	857
1983 package 2/	--	--	--	530	530	530	264	--
1984 package	--	--	--	--	--	514	514	514
1985 package 3/	--	--	--	--	--	--	343	343

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

1/ Based on a small computational model. The calculations are illustrative as they depend crucially on the underlying assumptions which, over the medium term, are ineviatably somewhat arbitrary. The main assumptions are: (i) that the external debt will be kept approximately at the 1983 level in nominal terms; (ii) unitary import elasticity; and (iii) the current account scenario shown in the table and the growth of export volume and of international reserves shown in the memorandum items to the table.

2/ Including US$600 million in new money from banks in 1983, but excluding financial credits and suppliers' credits under the Berne arrangement.

3/ Hypothetical example.

DRAFT
3/19/84:Y5

Table . Yugoslavia: Gap Analysis Sheet for 1984

(In millions of U.S. dollars)

A. Uses of funds

Medium- and long-term debt repayments (including interest)				-4,395
Of which:	Principal	Interest	Total	
Friends	700	300	1,000	
Other Governments	100	50	150	
Banks	1,400	1,000	2,400	
Other	545	300	845	
Loans extended				-200
Other short-term capital, errors and omissions				-250
Total requirements				-4,845

B. Sources of funds

1. Before negotiation	
Current account (excluding interest)	2,150
IMF credit (net)	10
Berne package (1983)	
Refinancing	3
Financial credits	40
New financing	347
IBRD	
Regular facilities	250
SAL	255
Other multilateral (IFC, EIB, and Eurofima)	50
Total before negotiation	3,105
Gap	-1,740
2. Consolidated and new financing	
Friends (100 percent of principal, 0 percent of interest)	850
Banks (100 percent of principal, 0 percent of interest)	1,200
Other governments) Other)	200
Consolidation subtotal	2,250
Increase in reserves (-)	-510

3/19/84

Table 1. Yugoslavia: Balance of Payments with the Convertible Currency Area, 1982-84 1/

(In millions of U.S. dollars)

	1982	1983 Revised estimate	1984 Staff Proj.
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Imports, c.i.f.	9,069	8,069	8,700
Trade balance	-3,543	-1,798	-1,700
Workers' remittances (net)	1,663	1,610	1,550
Tourism (net)	704	875	1,000
Interest payments (net)	-1,692	-1,489	-1,650
Other (net)	1,266	1,101	1,300
Services (net)	1,941	2,097	2,200
Current balance	-1,602	299	500
Medium- and long-term capital	-126	1,140	250
Loans received (net)	51	1,297	450
Drawings	(1,815)	(3,660)	(3,195)
Repayments	(-1,764	(-2,363)	(-2,745)
Loans extended (net)	-177	-157	-200
Short-term capital through the banking system	-506	-670	--
Other short-term capital, errors and omissions	659	-1,234	-250
Overall balance	-1,575	-465	500
Use of Fund credit	563	410	10
Purchases	608	590	293
Repurchases	45	180	283
Reserve movements (increase -)	1,012	55	-510

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

1/ Calculated on the basis of statistical exchange rates of currencies to the U.S. dollar which may result in significant over- or underestimation of balance of payments flows, depending on currency composition and actual movement of currencies against the dollar. Staff calculations suggest that trade flows are underestimated by some 2 percent in 1982 and may be overestimated by a similar amount in 1983.

3/19/84

Table 2. Yugoslavia: Drawings on Medium- and Long-term Debt in Convertible Currency by Creditor

(In millions of U.S. dollars)

	1983 Estimate	1984 Projection
Government packages	796	1,240
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Refinancing	(304)	(3)
New financial credits	(132)	(40)
Suppliers' credits	(360)	(347)
Geneva	...	850
Refinancing	(...)	(700)
Suppliers' credits	(...)	(150)
Commercial bank package	1,550	1,200
Refinancing	950	1,100
New financing	600	100
IBRD	280	505
Regular facilities	260	250
SAL	20	255
Other multilateral lenders: IFC, EIB and Eurofima	60	50
Suppliers' credits outside Government packages	974	200
Subtotal	3,660	3,195
IMF	590	293 1/
Total	4,250	3,488

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

1/ Total projected purchases under the stand-by arrangement are equivalent to SDR 370 million, but the final purchase from the Fund will not take place until February 1985.

(c) comm. bk 1.3 last time
remediate

(d) suppliers' credits 200
should be more

Dutch (a) refunding not 700
but 783
remediate

(b) 150 refinancing
credits

3/19/84

Table 3. Yugoslavia: Repurchase Obligations and Charges Payable to the IMF

(In millions of SDRs)

	Repurchases			Charges
	Total	Present obligations 1/	Proposed stand-by	
1984	269.31	269.31	--	205.3
1985	322.15	322.15	--	204.1
1986	362.50	362.50	--	173.7
1987	385.76	361.38	24.38	132.5
1988	444.37	322.50	121.87	86.9
1989	360.33	239.46	120.63	42.3
1990	155.39	97.88	57.51	13.2
1991	40.01	--	40.01	2.7
1992	5.63	--	5.63	0.2
Total	2,345.18	1,975.18	370.00	860.9

Source: Fund staff estimates.

1/ Including repurchases under the Compensatory Financing Facility of SDR 103.9 million in 1984 and SDR 17.3 million in 1985.

Table 4. Yugoslavia: Medium-Term Scenario 1983-90 1/

(In millions of U.S. dollars)

	1983	1984	1985	1986	1987	1988	1989	1990
1. Current account balance	299	500	700	500	450	450	400	350
2. Increases in reserves (-)	55	-510	-200	-200	-200	-200	-200	-200
3. Amortization of medium- and long-term debt outstanding at end-1983	-2,363	-2,745	-2,385	-2,770	-2,450	-1,720	-880	-410
4. Amortization of new borrowing	--	--	-167	-300	-450	-1,192	-2,214	-2,930
5. Short-term capital through banks	-670	--	-400	100	100	100	100	--
6. Loans extended and errors and omissions	-1,391	-450	-200	-200	-200	-200	-200	-200
7. Net purchases from the Fund	410	10	-243	-380	-404	-465	-377	-163
8. Gross medium- and long-term borrowing (= 1+2+3+4+5+6+7)	3,660	3,195	2,895	3,250	3,154	3,227	3,371	3,553
Of which: Additional borrowing on commercial terms	(600)	(--)	(365)	(1,795)	(1,804)	(1,877)	(2,021)	(2,203)
9. Total debt outstanding at year end (= previous year's level +8+3+4+5+7)	19,525	19,985	19,685	19,585	19,535	19,485	19,485	19,535
Memorandum items:								
Export volume growth (percent change)	13.6	9.4	6.2	4.0	4.0	4.0	4.0	4.0
Interest payments (millions of US$)	1,489	1,650	1,652	1,629	1,624	1,621	1,620	1,624
Debt service ratio (percent of foreign exchange earnings)	32.8	34.9	31.9	33.1	30.4	29.0	27.8	26.4
Ratio of total debt to GSP (percent)	45.2	47.7	43.0	38.9	35.8	33.0	30.5	28.3
Real GSP growth (percent change)	-2.5	0.6	5.1	5.7	4.2	4.1	4.0	3.9
Amortization payments on refinancing packages (millions of US$)	--	--	--	530	530	1,044	1,121	857
1983 package 2/	--	--	--	530	530	530	264	--
1984 package	--	--	--	--	--	514	514	514
1985 package 3/	--	--	--	--	--	--	343	343

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

1/ Based on a small computational model. The calculations are illustrative as they depend crucially on the underlying assumptions which, over the medium term, are ineviatably somewhat arbitrary. The main assumptions are: (i) that the external debt will be kept approximately at the 1983 level in nominal terms; (ii) unitary import elasticity; and (iii) the current account scenario shown in the table and the growth of export volume and of international reserves shown in the memorandum items to the table.

2/ Including US$600 million in new money from banks in 1983, but excluding financial credits and suppliers' credits under the Berne arrangement.

3/ Hypothetical example.

3/22/84

Table 5. Yugoslavia: Gap Analysis Sheet for 1984

(In millions of U.S. dollars)

A. Uses of funds				
Medium- and long-term debt repayments (including interest)				-4,395
Of which: 1/	Principal	Interest	Total	
Friends	700	300	1,000	
Other Governments	100	50	150	
Banks	1,400	1,000	2,400	
Other	545	300	845	
Loans extended				-200
Other short-term capital, errors and omissions				-250
Total requirements				-4,845
B. Sources of funds				
1. Before negotiation				
Current account (excluding interest)				2,150
IMF credit (net)				10
Berne package (1983)				
Refinancing				3
Financial credits				40
New financing				347
IBRD				
Regular facilities				250
SAL				255
Other multilateral (IFC, EIB, and Eurofima)				50
Total before negotiation				3,105
Gap				-1,740
2. Consolidated and new financing				
Friends (100 percent of principal, 0 percent of interest)				850
Banks (100 percent of principal, 0 percent of interest)				1,200
Other governments) Other)				200
Consolidation subtotal				2,250
Increase in reserves (-)				-510

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

1/ Estimated.

DRAFT 3/18/84

THE NATIONAL BANK OF YUGOSLAVIA

and

CERTAIN OTHER YUGOSLAV BANKING INSTITUTIONS,

as the Obligors

FINANCING AGREEMENT

Dated as of
________________ __, 1984

Guaranteed by

THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA

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47044-00003G04
DRAFT 3/18/84

FINANCING AGREEMENT, dated as of ______________, 1984, among:

(1) The National Bank of Yugoslavia, a juridical entity created under the laws of The Socialist Federal Republic of Yugoslavia ("NBY");

(2) The other banking institutions listed on the signature pages hereto under the heading "Obligors", each of which is a banking institution established and existing under the laws of Yugoslavia (collectively with NBY being herein called the "Obligors");

(3) The Creditors (as hereinafter defined);

(4) The Agent (as hereinafter defined); and

(5) The National Bank of Yugoslavia, as the Paying Agent for the Obligors (NBY, in such capacity, being herein called the "Paying Agent").

INTRODUCTORY STATEMENT

A. The purpose of this Financing Agreement is to enable the Creditors to make refunding and consolidating loans to the Obligors, which refunding and consolidating loans will be used to refinance for the term provided herein certain medium-term obligations due to the Creditors.

B. The Creditors are prepared to make refunding and consolidating loans to the Obligors on the terms and conditions hereinafter set forth and are desirous of having the Agent act on their behalf to the extent and in the manner described herein.

NOW, THEREFORE, the parties to this Agreement hereby agree as follows:

ARTICLE I

DEFINED TERMS AND INTERPRETATION

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural of the terms defined):

"Administrative Coordinator" means Peat, Marwick, Mitchell & Co., London, appointed by the Guarantor, the Paying Agent, the Obligors, the Creditors and the Agent, to carry out, with the cooperation of the Social Accounting Service of Yugoslavia, the functions set out in Schedule 1 hereto or such other person who shall be satisfactory to the Majority Creditors, as may, at the request of the Guarantor and the Paying Agent, agree to carry out those functions.

"A Forfait Deduction" means, in relation to an A Forfait Transaction, the interest component on account of the indebtedness due in respect of such A Forfait Transaction, which component (in the case of any such indebtedness with a stated maturity date during 1984) shall be equal to the relevant percentage of such indebtedness set forth below for the currency in which the transaction is denominated, namely:

Austrian Schillings:	____%
Swiss Francs:	____%
All other currencies:	____%

"A Forfait Transaction" means a transaction or series of transactions under which indebtedness (whether or not evidenced by a note or other instrument) of one or more Yugoslav Obligors has been sold on a discount basis one or more times without recourse to the seller under an "a forfait" or equivalent arrangement.

"Affiliate" means, in relation to the Agent or a Creditor, a subsidiary of the Agent or such Creditor, a holding company of the Agent or such Creditor or any subsidiary of any such holding company.

"Agency" means any agency of Yugoslavia or of any of the republics or autonomous provinces thereof.

"Agent" means Manufacturers Hanover Limited or any successor thereto appointed pursuant to and in accordance with the terms hereof.

"Agreement Currency" has the meaning set forth in paragraph (b) of Section 14.07 hereof.

"Applicable Margin" means the Domestic Rate Margin, the Fixed Rate Margin or the Interbank Rate Margin.

"Applicable Taxes" has the meaning set forth in paragraph (a) of Section 15.10 hereof.

"Arrears" means:

(i) the principal of or interest on any External Indebtedness of any Yugoslav Obligor or other Yugoslav Person (other than an individual) due and payable to any Creditor (including, without limitation, any such interest in the nature of an A Forfait Deduction becoming due and payable on the maturity date of the related A Forfait Transaction), other than:

(A) any principal of or interest on Excluded Debt (except any such principal or interest due and payable under the Short-Term Facilities Agreement or the 1983 Financing Agreement);

(B) any such principal or interest due on account of any item of External Indebtedness owing to any Creditor that is not a "Creditor" under the Short-Term Facilities Agreement or a "Creditor" under the 1983 Financing Agreement (as the case may be), provided that at any time during the period from January 17, 1983 to and including December 31, 1983 (I) such item would have constituted an item of "Specified Short-Term Debt" under the Short-Term Facilities Agreement or would have been made subject to, or deemed outstanding under, a "Continuing Credit Facility" thereunder had such Creditor then been a "Creditor" under the Short-Term Facilities Agreement and complied with the provisions thereof or (II) such item would have constituted an "Eligible Principal Payment" under the 1983 Financing Agreement had such Creditor then been a "Creditor" thereunder;

(C) any such principal which constitutes a Principal Payment; or

(D) any such interest due and payable on or after January 18, 1983 as a result of the interest rate applicable to such External Indebtedness having been increased through the operation of any penalty or default clause in any of the instruments or agreements evidencing, governing or otherwise relating to such External Indebtedness solely by reason of a failure on the part of any Original Borrower to pay <u>when scheduled to be due under the Original Governing Agreement therefor as in effect as at the close of business on January 17, 1983 (I) any item of "Specified Short-Term Debt" or "Trade Debt" under the Short-Term Facilities Agreement, (II) any "Eligible Principal Payment" under the 1983 Financing Agreement or (III) any Eligible Principal Payment; and</u>

(ii) fees, costs, expenses or other amounts (except principal or interest, default or otherwise) owing in respect of any External Indebtedness due to any Creditor, including, without limitation, any such amounts owing under any funding or payment indemnity, increased cost, yield protection, foreign or withholding tax, documentary or excise tax, enforcement or other similar clauses in any of the instruments or agreements evidencing, governing or otherwise relating to such External Indebtedness, other than any such amounts in respect of External Indebtedness interest on which is excepted from the coverage of paragraph (i) of this definition pursuant to subparagraphs (A) <u>and</u> (B) thereof;

<u>provided</u> that the principal amounts described in paragraph (i) of this definition are not due as a result of any acceleration of the maturity thereof or any exercise of any right of mandatory or voluntary prepayment.

"<u>Assignee</u>" has the meaning set forth in Section 14.10 hereof.

"<u>Austrian Reference Banks</u>" means the principal Vienna offices of Creditanstalt-Bankverein, Oesterreichische Landerbank AG, and Girozentrale und Bank der Oesterreichischen Sparkassen AG.

"Austrian Schilling Domestic Rate" means a fluctuating rate equal at all times to the average (rounded upwards to the nearest 1/16 of 1%) of the rates quoted from time to time by the Austrian Reference Banks to the Agent as the rate charged from time to time to first-class commercial borrowers in Austria for credit facilities on a current account basis in Austrian Schillings ("Kontokorrentkredit").

"Austrian Schillings" means lawful currency of Austria.

"Banking Day" means a day on which banks are open for domestic and foreign exchange business in Frankfurt, London, Milan, New York, Tokyo, Toronto, Vienna and Zurich.

"Berne Accord" means the "Memorandum of Understanding" concerning Yugoslavia, dated January 19, 1983, recording the understandings reached between the states parties thereto relating to certain indebtedness referred to therein.

"Berne Accord Coordinator" means the Secretary of State of the Federal Department of Foreign Affairs of Switzerland or his authorized representative, acting as the coordinator and reporter of actions taken by the Cooperating States pursuant to the Berne Accord.

"Berne Arrangement" means an arrangement with a Cooperating State pursuant to which such Cooperating State agrees either (i) to make new credit facilities available to a Yugoslav Person or (ii) to extend or refinance existing indebtedness owed to, or guaranteed or insured by, it or one of its agencies by a Yugoslav Person, in either case as contemplated by the Berne Accord and as reported by or on behalf of such Cooperating State to the Berne Accord Coordinator.

"BIS" means the Bank for International Settlements or any successor thereto.

"Bond" means a bond, note (including a floating rate note), or other transferable instrument which was issued under or pursuant to any of those issues or placements (including those identified in Schedule 2 hereto) and which evidences the existence or amount of a Principal Payment (whether such Principal Payment is in the nature of an installment payment in respect of such bond, note or other transferable instrument or arises by virtue of the selection by lot of such bond, note or other transferable instrument to become due from among the class or series of which it is a part).

"Business Day" means a day on which banks are open for domestic and foreign exchange business in Frankfurt, London, New York and Zurich.

"Calculation Date" has the meaning set forth in paragraph (d) of Section 5.06 hereof.

"Canadian Dollar Domestic Rate" means a fluctuating rate equal at all times to the rate of interest per annum publicly announced from time to time by the Canadian Dollar Reference Bank as the prime lending rate then in effect on Canadian Dollar commercial loans in Canada.

"Canadian Dollar Reference Bank" means the principal Toronto office of The Royal Bank of Canada.

"Canadian Dollars" means the lawful currency of Canada.

"Cash Collateralized Debt" means a debt (or the part thereof) the payment or repayment of which was, as at the close of business on January 17, 1983 (or, in the case of any Principal Payment, on the Final Advance Date thereof, if such Final Advance Date is later than January 17, 1983), fully, expressly and effectively secured by an encumbrance securing such debt (or such part thereof) and created specifically for that purpose on Foreign Currency.

"Cooperating State" means one of the following states: Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Italy, Japan, Kuwait, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the United States of America.

"Creditor" means any creditor who is a party to this Agreement to which an Eligible Principal Payment is owed and any person to whom such Creditor's rights and obligations have been transferred pursuant to the terms hereof, provided that each of the New York agencies of Udruzena Beogradska Banka and Jugobanka Udruzena Banka is not a Creditor under this definition. For purposes of the definition of

"Arrears" in this Section 1.01 and paragraph (e) of Section 12.01 hereof, "Creditor" includes an Affiliate of any Creditor which is a bank or financial institution which has been identified by such Creditor in a notice to the Paying Agent (with a copy to the Agent) as an Affiliate to be so included, provided that such notice is given to the Paying Agent before the First Refunding and Consolidating Loan Date.

"Creditor Payment Date" has the meaning set forth in paragraph (d) of Section 5.06 hereof.

"Deutsche Mark" means lawful currency of the Federal Republic of Germany.

"Deutsche Mark Domestic Rate" means the prevailing floating interest rate from time to time of the AKA Ausfuhrkreditgesellschaft GmbH, Frankfurt, for loans from its Ceiling "A", as notified by the Deutsche Mark Domestic Rate Reference Bank to the Agent from time to time.

"Deutsche Mark Domestic Rate Reference Bank" means the principal Dusseldorf office in the Federal Republic of Germany of Westdeutsche Landesbank Girozentrale.

"Deutsche Mark Fixed Rate" means, with respect to each Fixed Rate Refunding and Consolidating Loan denominated in Deutsche Mark, a fixed rate equal at all times to the blended rate prevailing in the German capital market for bearer bonds of the German Landesbanken and DG-Bank Deutsche Genossenschaftsbank for periods comparable to the maturities of the Fixed Rate Refunding and Consolidating Loans denominated in Deutsche Mark to be made on the date of such Fixed Rate Refunding and Consolidating Loan, to be weighted in accordance with the respective aggregate amounts of such maturities, such blended rate to be determined by the Deutsche Mark Fixed Rate Reference Bank one Frankfurt banking day before the date of such Refunding and Consolidating Loan; provided, however, that if the Deutsche Mark Fixed Rate Reference Bank is of the opinion that it is unable to place such bearer bonds on the German capital market on such date with such maturities, such fixed rate shall be equal to the blended rate so determined by the Deutsche Mark Fixed Rate Reference Bank as prevailing in the German capital market for such bearer bonds with such shorter maturities as it is able to so place on the German capital market approximating as closely as possible to the maturities of such Fixed Rate Refunding and Consolidating Loans, and at the expiry of each such shorter maturity a further such blended rate shall be determined in accordance with the above.

"Deutsche Mark Fixed Rate Reference Bank" means the principal Dusseldorf office in the Federal Republic of Germany of Westdeutsche Landesbank Girozentrale.

"Domestic Rate" has, with respect to each currency in which a Domestic Rate Refunding and Consolidating Loan may be made, the meaning set forth below for such currency:

Currency	Domestic Rate
Austrian Schillings	Austrian Schilling Domestic Rate
Canadian Dollars	Canadian Dollar Domestic Rate
Deutsche Mark	Deutsche Mark Domestic Rate
Italian Lire	Italian Lire Domestic Rate
Japanese Yen	Japanese Yen Domestic Rate
Swiss Francs	Swiss Franc Domestic Rate
U.S. Dollars	U.S. Dollar Domestic Rate

"Domestic Rate Refunding and Consolidating Loan" means each Refunding and Consolidating Loan bearing interest based upon a Domestic Rate pursuant to Section 3.05 hereof.

"Domestic Rate Margin" means, with respect to each currency in which a Domestic Rate Refunding and Consolidating Loan may be made, 1-1/2 percent.

"Effective Date" has the meaning set forth in Section 7.02 hereof.

"Eligible Principal Payment" means a Principal Payment owed to a Creditor (directly, by virtue of the exercise or permitted exercise of any right of subrogation or otherwise).

"Events of Default" has the meaning set forth in Article XII hereof.

"Exchange Reference Banks" means, with respect to each currency in which a Refunding and Consolidating

Loan may be made, the principal offices of the banks set forth below in the city in which the Payment Account for such currency is located:

Currency	Exchange Reference Banks
Austrian Schillings	
Canadian Dollars	
Deutsche Mark	
Italian Lire	
Japanese Yen	
Swiss Francs	
U.S. Dollars	

"Excluded Debt" means the principal or its equivalent of any debt (or the part thereof) of a Yugoslav Obligor in respect of which any one or more of the following criteria are satisfied:

(i) such debt constitutes an "Extension Loan" under, or is outstanding under a "Continuing Credit Facility" governed by, the Short-Term Facilities Agreement or constitutes an "Advance" or "Refunding and Consolidating Loan" under the 1983 Financing Agreement;

(ii) such debt is or was incurred on or after January 18, 1983 otherwise than (A) for the purpose, directly or indirectly, subject to paragraph (i) of this definition, of replacing, discharging or refinancing (in whole or in part) a debt which was incurred before January 18, 1983 or (B) pursuant to a written commitment (other than a letter of credit) in effect as at the close of business on January 17, 1983;

(iii) such debt is or was incurred under or in connection with a letter of credit issued or confirmed on or after January 18, 1983, provided that such letter of credit does not directly or indirectly replace (in whole or in part) a letter of credit which was issued or confirmed before January 18, 1983;

(iv) such debt constitutes indebtedness arising out of a contract for the purchase or sale of precious metals;

(v) such debt is or was incurred under a Foreign Exchange Contract;

(vi) such debt is or was part of a debt which arose by reason of a variation having occurred in the rate of exchange between the currency in which such debt is outstanding and the currency by reference to which the amount of such debt is or was quantified when the indebtedness constituted thereby is or was incurred;

(vii) such debt is (A) a Cash Collateralized Debt, (B) a Secured Debt or (C) an inter-bank deposit [which is supported by a counterpart deposit created on approximately the same date as such inter-bank deposit and which is of like amount, tenor and currency];

(viii) such debt constitutes an indemnity payment obligation arising under a provision in the nature of Section 3.08 or 5.09 hereof;

(ix) such debt is indebtedness having a maturity of 12 months or less from the date originally incurred (including, without limitation, any debt due in 1984 which was incurred during the period from January 1, 1983 to January 17, 1983);

(x) such debt constitutes (A) Government Guaranteed Debt or (B) Government Related Debt which has been, or is subject to being, refinanced with the refinancing of the Government Guaranteed Debt to which it is related as contemplated by subparagraph (i) of paragraph (d) of Section 7.03 hereof; or

(xi) such debt arises or arose under a Bond or an A Forfait Transaction wherein the obligor is a Yugoslav Obligor and of which any creditor, other than a bank or a financial institution, was the beneficial owner as at the close of business on January 17, 1983 (or, in the case of any Principal Payment, on the Final Advance Date thereof, if such Final Advance Date is later than January 17, 1983), unless (A) such Bond or A Forfait Transaction was subject as at such close of business to a repurchase agreement by a non-Yugoslav bank or financial institution or (B) a non-Yugoslav bank or financial institution was a surety for such Bond or A Forfait Transaction as at such close of business.

"Exportable Assets" means:

(i) any goods or other tangible property produced or processed in Yugoslavia or owned by a Yugoslav Person which are sold or are capable of being sold, and any Yugoslav Services which are (or are to be) provided, for a consideration consisting wholly or partly of Foreign Currency and the proceeds or intended proceeds thereof;

(ii) any right to receive Foreign Currency as a result of or in connection with any such sale as contemplated in paragraph (i) of this definition; and

(iii) any goods or other tangible property produced or processed in Yugoslavia or owned by a Yugoslav Person and any Yugoslav Services which are exchanged or capable of being exchanged, in whole or in part, for (or as all or part of the consideration for) goods or other tangible property produced or processed or owned by any person outside Yugoslavia or for (or as all or part of the consideration for) services other than Yugoslav Services.

"External Indebtedness" means any indebtedness which the obligor is required to pay (or agrees that such indebtedness shall be, or may be required to be, paid) in currency other than Yugoslav Dinars which constitutes (i) indebtedness for borrowed money or for the deferred purchase price of property, (ii) indebtedness evidenced by a Bond, (iii) indebtedness evidenced by an A Forfait Transaction, (iv) obligations in respect of swap transactions wherein the subject matter of the swap is Foreign Currency or gold or (v) a guarantee or other contingent obligation in respect of indebtedness or obligations described in clauses (i) through (iv) of this definition to the extent that such guarantee or contingent obligation is called upon on or prior to December 31, 1984.

"Extra-majority Creditors" means Creditors (i) during the period before February 18, 1985, having more than 95% in aggregate principal amount of the

Refunding and Consolidating Loans outstanding and the Eligible Principal Payments then constituting Incorporated Debt and (ii) at any time thereafter, having more than 95% in aggregate principal amount of the Refunding and Consolidating Loans outstanding.

"Final Advance Date" means, in relation to any Principal Payment, the date on which the last loan or advance was made on account of the External Indebtedness in respect of which such Principal Payment constitutes a payment or repayment.

"First Refunding and Consolidating Date" means the first Refunding and Consolidating Loan Date.

"Fixed Rate" means the Deutsche Mark Fixed Rate, Japanese Yen Fixed Rate or the Swiss Franc Fixed Rate.

"Fixed Rate Refunding and Consolidating Loan" means each Refunding and Consolidating Loan bearing interest based upon a Fixed Rate pursuant to Section 3.04 hereof.

"Fixed Rate Margin" means, with respect to each currency in which a Fixed Rate Refunding and Consolidating Loan may be made, 1~~7~~5/8 percent.

"Foreign Currency" means U.S. Dollars or any currency (other than Yugoslav Dinars) which is freely convertible into U.S. Dollars.

"Foreign Exchange Contract" means a contract whereby one person agrees to buy from or sell to another person a Foreign Currency for a consideration consisting wholly of another Foreign Currency.

"Frankfurt Interbank Offered Rate" means, for each Interest Period with respect to each Frankfurt Interbank Offered Rate Refunding and Consolidating Loan, the rate quoted to the Agent by the Deutsche Mark Domestic Rate Reference Bank as the arithmetic mean (rounded upward, if necessary, to the nearest whole multiple of 1/16 of 1%) of the rates at which deposits in Deutsche Mark are offered to each of the Frankfurt Interbank Offered Rate Reference Banks by prime banks in the Frankfurt interbank market on the Quotation Date of such Interest Period for a period equal to such Interest Period and in an amount substantially equal to the amount of the Frankfurt

Interbank Offered Rate Refunding and Consolidating Loan to be outstanding during such Interest Period from such Frankfurt Interbank Reference Bank (or, in the event that such Frankfurt Interbank Reference Bank does not have any such Frankfurt Interbank Offered Rate Refunding and Consolidating Loan, an amount equal to Deutsche Mark 5,000,000).

"Frankfurt Interbank Offered Rate Refunding and Consolidating Loan" means each Refunding and Consolidating Loan bearing interest based upon the Frankfurt Interbank Offered Rate pursuant to Section 3.06 hereof.

"Frankfurt Interbank Reference Banks" means the principal Frankfurt offices in the Federal Republic of Germany of Westdeutsche Landesbank Girozentrale, Bank fuer Gemeinwirtschaft, Aktiengesellschaft and Bankhaus Gebrueder Bethmann.

"Geneva Accord" has the meaning set forth in subparagraph (i) of paragraph (d) of Section 7.03 hereof.

"Geneva Arrangement" means an agreement or other arrangement (including multiple agreements) with a Cooperating State pursuant to which such Cooperating State refinances, or agrees to refinance on conditions which are reasonably capable of being satisfied, on terms complying with the Geneva Accord, 100% of each payment of the External Indebtedness of one or more Yugoslav Obligors referred to in subparagraph (i) of paragraph (d) of Section 7.03 hereof which either is owing to such Cooperating State or constitutes an item of Government Guaranteed Debt in respect of which it is a surety.

"Government Guaranteed Debt" means, for any person, External Indebtedness of such person for which any multilateral or governmental non-Yugoslav entity (including, without limitation, any export credit guarantee agency listed on Schedule 3 hereto) is a surety.

"Government Related Debt" means, in relation to each Creditor, External Indebtedness owed to such Creditor which is not Government Guaranteed Debt and which does not constitute the separate financing of any "down" payment required as a condition to any

Government Guaranteed Debt incurred to finance the import to Yugoslavia of goods or services, but which is otherwise directly related to and owed in conjunction with Government Guaranteed Debt. Example: a bank provides financing for the export of goods to Yugoslavia. 15% of such financing may be in the form of a "down" payment loan and is not guaranteed by a government. The remaining 85% of such financing is a credit guaranteed by a government other than Yugoslavia but the guarantee covers only 95% of the amount of such credit. The 5% of the credit that is a part of but not covered by the benefits of the government guarantee is Government Related Debt and would not be required to be refinanced as a Refunding and Consolidating Loan.

"Guaranteed Obligations" has the meaning set forth in Section 11.01 hereof.

"Guarantor" means The Socialist Federal Republic of Yugoslavia, acting through the Federal Secretariat of Finance.

"Guaranty" means the Guaranty by the Guarantor in favor of the Creditors and the Agent, in substantially the form of Exhibit A hereto.

"IBRD" means the International Bank for Reconstruction and Development or any successor thereto.

"IMF" means the International Monetary Fund or any successor thereto.

"Incorporated Debt" means an Eligible Principal Payment subject to a Refunding and Consolidating Loan Notice filed with the Agent pursuant to the provisions hereof.

"Information Memorandum" means the document entitled "Yugoslavia Economic Information Memorandum" prepared by the Research Centre of NBY and dated ______ ___, 1984.

"Interbank Rate Refunding and Consolidating Loan" means each Refunding and Consolidating Loan bearing interest based upon a LIBO Rate or Frankfurt Interbank Offered Rate pursuant to Section 3.06 hereof.

"Interbank Rate Margin" means, with respect to each Frankfurt Interbank Offered Rate Refunding and Consolidating Loan and each currency in which a LIBO Rate Refunding and Consolidating Loan may be made, 1-5/8 percent.

"Interest Adjustment Amount" has the meaning set forth in Section 3.10 hereof.

"Interest Payment Date" means (i) with respect to each Domestic Rate Refunding and Consolidating Loan, Fixed Rate Refunding and Consolidating Loan or Interbank Rate Refunding and Consolidating Loan, the 18th day of each calendar quarter in each year and the day of payment in full of each such Refunding and Consolidating Loan and (ii) with respect to the principal amount due on account of any such Refunding and Consolidating Loan on any Principal Payment Date, such Principal Payment Date.

"Interest Period" means, with respect to each Interbank Rate Refunding and Consolidating Loan, each of the successive periods into which is to be divided the period between the date of such Interbank Refunding and Consolidating Loan and the date of the repayment thereof in full. The initial Interest Period for each Interbank Rate Refunding and Consolidating Loan shall begin on the day of such Interbank Refunding and Consolidating Loan. Each subsequent Interest Period for such Interbank Refunding and Consolidating Loan shall begin on the last day of the then current Interest Period for such Interbank Refunding and Consolidating Loan hereunder. The duration of each Interest Period for such Interbank Refunding and Consolidating Loan shall be three months or six months, as the Paying Agent may select and advise the Agent in writing at least five Working Days prior to the commencement of such Interest Period (and, in the absence of such advice, the duration of such Interest Period shall be three months), provided that:

(i) subject to paragraphs (ii) and (iii) of this definition, each Interest Period so selected shall end on the 18th day of a calendar quarter (or, if such day is not a Business Day, the next succeeding Business Day) and, in the case of any Interbank Rate Refunding and Consolidating Loan made on other than the 18th day of a calendar quarter (or such next succeeding Business Day), the initial Interest Period for such Interbank Refunding and Consolidating Loan shall end on the next succeeding day which is the 18th day of a calendar quarter (or, if such day is not a Business Day, the next succeeding Business Day);

(ii) any Interest Period which begins prior to any Principal Payment Date and would otherwise end after such Principal Payment Date shall end on such Principal Payment Date with respect to the principal amount due on such Principal Payment Date; and

(iii) the duration of Interest Periods with respect to any overdue amount of or related to any Interbank Rate Refunding and Consolidating Loan shall be one day, one week, one month or three months as the Agent may from time to time select.

"Interest Rate" means, in relation to any Refunding and Consolidating Loan, the sum of the Reference Rate and the Applicable Margin applicable thereto.

"International Monetary Assets" means (i) gold and other bullion, (ii) Foreign Currency, (iii) bank deposits denominated in Foreign Currency and other rights (not being claims on a Yugoslav Person) to receive Foreign Currency, (iv) claims evidenced by government securities denominated in Foreign Currency and (v) any Special Drawing Rights and Reserve Positions in the Fund, for which purpose the phrases "Special Drawing Rights" and "Reserve Positions in the Fund" used herein shall have the meanings set forth (in relation to the types of assets included) in the February, 1984, Edition of the IMF's monthly publication entitled "International Financial Statistics", as the same may be redefined by the IMF.

"Italian Lire" means lawful currency of the Republic of Italy.

"Italian Lire Domestic Rate" means the prevailing floating prime interest rate for commercial lending in Italy as determined by the Associazione Bancaria Italiana and as quoted by the Italian Lire Reference Bank.

"Italian Lire Reference Bank" means the principal Milan office of Istituto Bancario San Paolo di Torino.

"Japanese Yen" means lawful currency of Japan.

"Japanese Yen Domestic Rate" means, with respect to each Domestic Rate Refunding and Consolidating Loan denominated in Japanese Yen, a fluctuating rate equal to the Japanese Long-Term Prime Lending Rate quoted by the Japanese Yen Reference Bank as prevailing on the date of such Refunding and Consolidating Loan and adjusted thereafter semi-annually to the then prevailing Japanese Long-Term Prime Lending Rate as quoted by the Japanese Yen Reference Bank.

"Japanese Yen Fixed Rate" means, with respect to each Fixed Rate Refunding and Consolidating Loan denominated in Japanese Yen, a fixed rate equal at all times to the Japanese Long-Term Prime Lending Rate quoted by the Japanese Yen Reference Bank as prevailing on the day of such Refunding and Consolidating Loan.

"Japanese Yen Reference Bank" means the principal Tokyo office of The Bank of Tokyo, Ltd.

"Judgment Currency" has the meaning set forth in paragraph (b) of Section 14.07 hereof.

"Lending Office" means, with respect to each Creditor for each of its Refunding and Consolidating Loans, the office of such Creditor specified as such in the Refunding and Consolidating Loan Notice for such Refunding and Consolidating Loan, and, subject to paragraph (b) of Section 14.10 hereof, any other office of such Creditor hereafter selected and notified to the Agent and the Paying Agent from time to time by such Creditor.

"LHB" means LHB Internationale Handelsbank. When used in this Agreement (other than when used with respect to Eligible Principal Payments, and Refunding and Consolidating Loans made in respect of Eligible Principal Payments, the Original Governing Agreements for which are syndicated loan agreements), "Creditor" and "bank or financial institution" (or words of similar meaning) do not include LHB.

"LHB Agreement" means the Letter Agreement by LHB and addressed to the Creditors and the Agent, in substantially the form of Exhibit C hereto, pursuant to which LHB agrees to continue to make loans or otherwise extend credit to Yugoslav obligors in amounts which shall be at least equal to, and at times which shall be simultaneous with, repayments received by LHB from Yugoslav Obligors for so long as this Agreement is in effect.

"LIBO Currency" means any of Deutsche Mark, Swiss Francs and U.S. Dollars.

"LIBO Rate" means, for each Interest Period with respect to each currency in which a LIBO Rate Refunding and Consolidating Loan may be made, the average (rounded upward, if necessary, to the nearest whole multiple of 1/16 of 1%) of the rates quoted to the Agent by each of the LIBO Reference Banks as the rate at which deposits in such currency are offered to such LIBO Reference Bank for such currency by prime banks in the London interbank market at approximately 11:00 A.M. (London time) on the Quotation Date of such Interest Period for a period equal to such Interest Period and in an amount substantially equal to the amount of the LIBO Rate Refunding and Consolidating Loan in such currency to be outstanding during such Interest Period from such LIBO Reference Bank (or, in the event that such LIBO Reference Bank does not have any such LIBO Rate Refunding and Consolidating Loan, an amount equal to U.S.$10,000,000 (or its equivalent in such currency)).

"LIBO Rate Refunding and Consolidating Loan" means each Refunding and Consolidating Loan bearing interest based upon a LIBO Rate pursuant to Section 3.06 hereof.

"LIBO Reference Banks" means, with respect to each LIBO Currency, the respective principal London offices of the banks set forth below:

LIBO Currency	Reference Banks
Deutsche Mark	BFG: Luxembourg, S.A. Luxembourg BHF-Bank International Luxembourg WestLB International S.A., Luxembourg
Swiss Francs	Credit Suisse Swiss Bank Corporation Union Bank of Switzerland
U.S. Dollars	Bank of America National Trust & Savings Association Barclays Bank International Limited Manufacturers Hanover Trust Company

"Lien" means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or any preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any obligation.

"London Process Agent" has the meaning set forth in paragraph (c) of Section 14.08 hereof.

"Majority Creditors" means Creditors (i) during the period before the Termination Date, having more than 66-2/3% in aggregate principal amount of the Refunding and Consolidating Loans outstanding and the Eligible Principal Payments then constituting Incorporated Debt and (ii) at any time thereafter, having more than 66-2/3% in aggregate principal amount of the Refunding and Consolidating Loans outstanding.

"New York Process Agent" has the meaning set forth in paragraph (c) of Section 14.08 hereof.

"1984 IMF Stand-by Arrangement" has the meaning set forth in Section 7.01 hereof.

"1983 Event of Default" means an "Event of Default" under the 1983 Financing Agreement or the Short-Term Facilities Agreement.

"1983 Financing Agreement" means the Financing Agreement, dated as of September 9, 1983, among NBY, the other Obligors, the creditors parties thereto, Manufacturers Hanover Limited as the agent for said creditors and the National Bank of Yugoslavia as the receiving and paying agent thereunder, as the same may from time to time be amended, supplemented or otherwise modified in accordance with the terms thereof.

"Notice of Default" means a written communication from any Creditor, addressed to the Agent, which (i) expressly refers to this Agreement, (ii) describes an event or condition, (iii) expressly states that such event or condition is an "Event of Default" hereunder or would constitute such an Event of Default upon the giving of notice hereunder or lapse of time or both or the fulfillment of any other requirement and (iv) requests the Agent to notify the Creditors of such event or condition. Any such Notice of Default may (but need not) be in the form of Exhibit D hereto.

"Original Borrower" means, in relation to any Principal Payment, the Yugoslav Obligor owing such Principal Payment under the Original Governing Agreement thereof.

"Original Governing Agreement" means, in relation to a payment or repayment which is a Principal Payment, the agreement, instrument or other document (whether written or not and whether arising by contract, under a creditor's usual or customary terms of business or otherwise) or instrument creating or evidencing such payment or repayment or pursuant to which the obligation to make such payment or repayment is or was incurred, as the same was in effect as at the close of business on January 17, 1983 (or, in the case of any Principal Payment, on the Final Advance Date thereof, if such Final Advance Date is later than January 17, 1983).

"Other Applicable Taxes" has the meaning set forth in paragraph (c) of Section 5.10 hereof.

"Payment Account" means, with respect to each currency in which a Refunding and Consolidating Loan may be maintained, the special purpose bank account of the Agent (or a special purpose sub-account maintained by the Agent in accordance with its customary controls within the general depository account of the Agent) with the depository specified below for such currency, or such other account as the Agent may designate by notice to the Paying Agent from time to time:

Currency	Depository and Account Name and Number
Austrian Schillings	Creditanstalt Bankverein Vienna: Manufacturers Hanover Limited London 0101-07530/01
Canadian Dollars	Manufacturers Hanover Canada Toronto: Manufacturers Hanover Limited London 6001-000042-500
Deutsche Mark	Manufacturers Hanover Trust Company Frankfurt: Manufacturers Hanover Limited London 0101-080002-101
Italian Lire	Manufacturers Hanover Trust Company Milan: Manufacturers Hanover Limited London 23937/509
Japanese Yen	Manufacturers Hanover Trust Company Tokyo: Manufacturers Hanover Limited London 3401-211623-650
Swiss Francs	Manufacturers Hanover Trust Company Zurich: Manufacturers Hanover Limited London 1701-006999-500
U.S. Dollars	Manufacturers Hanover Trust Company New York: Manufacturers Hanover Limited London Operating Account 544-7-14108

"Payment Date" means any Interest Payment Date or Principal Payment Date.

"Permitted Currency" means Austrian Schillings, Canadian Dollars, Deutsche Mark, Italian Lire, Japanese Yen, Swiss Francs and U.S. Dollars.

"Preferred Currency" means, with respect to each Creditor, the Permitted Currency (other than Austrian Schillings or Italian Lire) [which is specified as the "Preferred Currency" of such Creditor in the first Refunding and Consolidating Loan Notice specifying a "Preferred Currency" of such Creditor. After a Creditor has chosen a "Preferred Currency" in a Refunding and Consolidation Loan Notice, such Creditor may not choose a different "Preferred Currency" in subsequent Refunding and Consolidating Loan Notices.] [which is selected by such Creditor in the exercise of a one-time option as the Permitted Currency in which each of the Refunding and Consolidating Loans to be made by such Creditor in a currency different from the currency in which the related Eligible Principal Payment is denominated is to be made, as such Permitted Currency is specified in the Refunding and Consolidating Loan Notice of such Creditor first filed with the Agent and the Paying Agent pursuant to the provisions hereof with respect to such a Refunding and Consolidating Loan.]

"Principal Payment" means a payment or repayment of External Indebtedness of a Yugoslav Obligor which constitutes principal or its equivalent, which is not Excluded Debt, and which (whether or not evidenced by a debit entry on a current or similar account) has become or becomes due during the period from January 1, 1984 to and including December 31, 1984 in accordance with the stated maturity thereof or would have so become due but for a deferral or acceleration, of the due date therefor on or after January 18, 1983. In calculating the principal amount of the obligation constituting the basis for an A Forfait Transaction there shall be included the total amount of the indebtedness due under such obligation less the A Forfait Deduction.

"Principal Payment Date" has the meaning set forth in Section 4.01 hereof.

"Quotation Date" means, in relation to any period for which an interest rate is to be determined hereunder, the date upon which quotations would ordinarily be given by prime banks in the London or Frankfurt interbank market (as the case may be) for deposits for such period and in the currency in relation to which such rate is to be determined for delivery on the first day of that period, provided that, if for any such period quotations would ordinarily be given on more than one day, the Quotation Date for such period shall be the last of those days. As of the date of this Agreement, the Quotation Date with respect to the London interbank market is two Working Days prior to the commencement of such period.

"Reference Bank" means each LIBO Reference Bank and Frankfurt Interbank Reference Bank and each Creditor specified in this Section 1.01 as providing quotations in regard to a Domestic Rate or a Fixed Rate, and any successor.

"Reference Rate" means any Domestic Rate, Fixed Rate, LIBO Rate or Frankfurt Interbank Offered Rate.

"Refunding and Consolidating Loans" means loans made pursuant to Section 2.01 hereof to refund and consolidate Eligible Principal Payments subject to Refunding and Consolidating Loan Notices.

"Refunding and Consolidating Loan Date" means, in relation to any Eligible Principal Payment constituting Incorporated Debt, the first day (i) which is the 18th day of a calendar month (or, if such 18th day is not a Banking Day, the next succeeding Banking Day) and (ii) which follows by at least 10 Working Days the last to occur of the Effective Date, the stated maturity date of such Eligible Principal Payment or the date on which the Refunding and Consolidating Loan Notice relating to such Eligible Principal Payment is filed with the Agent pursuant to the provisions hereof.

"Refunding and Consolidating Loan Notice" means, in relation to any Eligible Principal Payment held by any Creditor, a Refunding and Consolidating Loan Notice among such Creditor, the Original Borrower of such Eligible Principal Payment (or on behalf of such Original Borrower by a Yugoslav bank guarantor of such Eligible Principal Payment or Jugobanka-Udruzena Banka, Ljubljanska Banka-Zdruzena Banka, Privredna Banka Sarajevo-Udruzena Banka, Udruzena Beogradska Banka and Zagrebacka Banka) and the Paying Agent, in substantially the form of Exhibit B hereto.

"Reporting Creditor" has the meaning set forth in paragraph (d) of Section 5.06 hereof.

"Reporting Period" has the meaning set forth in paragraph (b) of Section 15.06 hereof.

"Requisite Creditors" has the meaning set forth in paragraph (a) of Section 13.02 hereof.

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"Secured Debt" means a debt (or a part thereof) which, as at the close of business on January 17, 1983 (or, in the case of any Principal Payment, on the Final Advance Date thereof, if such Final Advance Date is later than January 17, 1983), was (i) fully, effectively and expressly secured by, or subject to a financial lease of, movable tangible property or fully, effectively and expressly secured by Foreign Currency revenues or right to receive Foreign Currency income, provided that such debt (or such part) has been identified as a Secured Debt to the Administrative Coordinator (which shall notify the Paying Agent thereof), or (ii) fully, expressly and effectively guaranteed by a non-governmental guarantor which is not a Yugoslav Person and which is not a bank or financial institution.

"Sharing Request" has the meaning set forth in paragraph (a) of Section 15.06 hereof.

"Short-Term Facilities Agreement" means the Short-Term Facilities Agreement, dated as of September 9, 1983, among NBY, the other Obligors, the creditors parties thereto, Manufacturers Hanover Limited as the agent for said creditors and the National Bank of Yugoslavia as the paying agent thereunder, as the same may be amended, supplemented or otherwise modified in accordance with the terms thereof.

"Substitute LIBO Rate" has the meaning set forth in paragraph (a) of Section 13.09 hereof.

"Swiss Franc Domestic Rate" means a fluctuating rate equal at all times to the rate applicable from time to time to three-month fixed-term advances to prime commercial private borrowers ("Feste Blankovorschusse an Kommerzielle Kunden") in accordance with the "Zinskonvenium" of Zurich, as notified to the Agent by the Swiss Franc Domestic Reference Bank.

"Swiss Franc Domestic Reference Bank" means the principal Zurich office of Swiss Bank Corporation.

"Swiss Franc Fixed Rate" means, with respect to each Fixed Rate Refunding and Consolidating Loan denominated in Swiss Francs, a rate equal at all times to ____% [to be completed with the rate equal to 1/2 of 1% plus the issuing rate in respect of seven year cash bonds issued by the Swiss Franc Domestic Reference Bank on the most recent date prior to the date of this Agreement on which such bonds were issued, as quoted by the Swiss Franc Domestic Reference Bank].

"Swiss Francs" means lawful currency of Switzerland.

"U.S. Dollars" or "U.S.$" means lawful currency of the United States of America.

"U.S. Dollar Domestic Rate" means a fluctuating rate equal at all times to the higher from time to time of:

(i) the rate of interest announced publicly by Manufacturers Hanover Trust Company in New York, New York, from time to time as the prime rate of Manufacturers Hanover Trust Company; or

(ii) the sum (adjusted to the nearest 1/8 of one percent or, if there is no nearest 1/8 of one percent, to the next higher 1/8 of one percent) of (a) the rate obtained by dividing (A) the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money center banks, such three-week moving average existing from time to time (adjusted to the basis of a year of 360 days) being determined weekly by the Agent on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of quotations for such rates received by the Agent from three New York certificate of deposit dealers of recognized standing, by (B) a percentage equal to 100% minus the average of the daily percentages specified during such three-week period by the Federal Reserve Board for determining the maximum reserve requirement (including, but not limited to, any basic, supplemental, emergency or marginal reserve requirement) for member banks of the Federal Reserve System in New York City with deposits exceeding U.S.$1,000,000,000 in respect of liabilities consisting of or including (among other liabilities) three-month nonpersonal time deposits of at least U.S.$100,000 plus (b) the average during such three-week period of the daily net annual assessment rates estimated by the Agent for determining the current annual assessment payable by Manufacturers Hanover Trust Company to the Federal Deposit Insurance Corporation for insuring three-month time deposits.

"Working Day" means a day on which banks are open for domestic and foreign exchange business in London and New York.

"Yugoslav Dinars" means lawful currency of Yugoslavia.

"Yugoslav Obligor" means (i) each Obligor, (ii) any Agency or (iii) each corporation, partnership, joint venture, business entity of any kind (including, without limitation, an organization of associated labor), bank or financial institution listed or described on Schedule 4 hereto or any other corporation, partnership, joint venture, business entity of any kind (including, without limitation, an organization of associated labor), bank or financial institution organized or existing under the laws of Yugoslavia or any political subdivision thereof.

"Yugoslav Person" means Yugoslavia, each Agency, each entity which is controlled by Yugoslavia and each person incorporated or resident in Yugoslavia.

"Yugoslav Services" means services rendered by any one or more Yugoslav Persons.

"Yugoslavia" means The Socialist Federal Republic of Yugoslavia.

SECTION 1.02. Interpretation of Terms. Any reference in this Agreement to:

(a) an "agency" of a state shall be construed so as to include any political subdivision, regional government, ministry, department, authority or corporation, statutory or otherwise, which is under the control of any of the foregoing;

(b) "control" or "controlled", with respect to a person, shall mean the power, whether by voting, power of appointment or other decision-making process, by virtue of ownership, either whole or partial, direct or indirect, statutory or otherwise, to direct the management, affairs or policy of such person;

(c) "government securities" shall be construed as a reference to securities issued by any state (or its central bank) or by any agency of a state or group of states;

(d) "indebtedness" or "debt" shall be construed so as to include any obligation (whether incurred or assumed as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;

(e) a "month" is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month (and reference to "months" shall be construed accordingly) except that, where any such period would otherwise end on a day which is not a Business Day, it shall end on the succeeding Business Day, provided that, if a period starts on the last Business Day in a calendar month and if there is no numerically corresponding day in the calendar month in which such period would otherwise end, such period shall end on the last Business Day in such later calendar month;

(f) a "person" shall be construed as a reference to any person, firm, company, corporation, government, state or agency of a state (or group of states) or any association or partnership (whether or not having separate legal personality) of two or more of the foregoing;

(g) a "subsidiary" is a reference to a company of which (i) the composition of the board of directors is controlled, directly or indirectly, by another company and/or (ii) at least half in nominal value of its issued share capital is owned, directly or indirectly, by another company and a reference to its "holding company" is a reference to such other company;

(h) a "surety" or "guarantor" includes any person who has given a guarantee or indemnity, or provided insurance, in respect of another person's indebtedness or has given the functional equivalent thereof under a repurchase agreement or as a contracted purchaser in the event of default or otherwise, and "suretyship" and "guarantee" shall be construed accordingly;

(i) "tax" shall be construed so as to include any tax, levy, impost, duty or other charge of a similar nature (including, without limitation, any penalty or any interest payable in connection with the payment or the failure to pay any of the same); and

(j) a Section, Article, Clause, Schedule or Recital is a reference to a section, article, or clause hereof or a schedule or recital hereto.

SECTION 1.03. Headings. Article and Section headings are for ease of reference only and do not constitute a part of this Agreement.

SECTION 1.04. Banking Terms. Any banking term not specifically defined herein shall be construed in accordance with the general practice of international commercial banks in New York.

SECTION 1.05. Dates Inclusive. Each period which is stated to commence on one date and end on another or to fall between two dates shall be inclusive of both such dates.

SECTION 1.06. Amendments. In this Agreement or in any document delivered pursuant hereto or in connection herewith a reference to this Agreement or any provision hereof shall, unless otherwise expressly stated herein or therein, be construed as a reference to this Agreement or such provision hereof as amended or modified from time to time.

ARTICLE II

REFUNDING AND CONSOLIDATING LOANS

SECTION 2.01. Commitment to Make and Accept Refunding and Consolidating Loans. On the terms and subject to the conditions of this Agreement, each Creditor agrees to make, and the Obligors jointly and severally agree to accept, a Refunding and Consolidating Loan in respect of, and solely for the purpose of substituting the same for, and in full payment of the principal amount outstanding of, each Eligible Principal Payment which has been identified as such in a Refunding and Consolidating Loan Notice executed on behalf of such Creditor, the relevant Obligor or Obligors and the Paying Agent and delivered to the Agent and the Paying Agent. Each Creditor shall apply the proceeds of each Refunding and Consolidating Loan made by it solely in satisfaction of the related Eligible Principal Payment; and, each of the Obligors and the Paying Agent hereby irrevocably authorizes and instructs such Creditor to so apply such proceeds, automatically and contemporaneously, with the making of such Refunding and Consolidating Loan.

SECTION 2.02. Procedures for Making Refunding and Consolidating Loans. (a) Amount and Currency of each Refunding and Consolidating Loan. The amount and currency of each Refunding and Consolidating Loan of each Creditor shall be determined by reference to the Refunding and Consolidating Loan Notice in respect of the related Eligible Principal Payment of such Creditor. Such Refunding and Consolidating Loan shall (i) if the related Eligible Principal Payment was outstanding on the Refunding and Consolidating Loan Date with respect thereto in a Permitted Currency, be in such Permitted Currency or in the Preferred Currency of such Creditor (as specified in the related Refunding and Consolidating Loan Notice) or (ii) if the related Eligible Principal Payment was outstanding on the Refunding and Consolidating Loan Date with respect thereto in a currency other than a Permitted Currency, be in such Preferred Currency (with the amount of such Preferred Currency under either clause (i) or (ii) of this paragraph (a) to be determined, if necessary, by conversion from the currency in which such Eligible Principal Payment was so outstanding in the manner contemplated in paragraph (b) of Section 14.15 hereof).

(b) Refunding and Consolidating Loan Dates. The Refunding and Consolidating Loan in respect of each Eligible Principal Payment constituting Incorporated Debt shall automatically be made and accepted on the Refunding and Consolidating Loan Date for such Eligible Principal Payment, provided that the conditions precedent set forth in Section 7.03 hereof shall have been satisfied as of the First Refunding and Consolidating Loan Date.

(c) Notification of each Refunding and Consolidation Loan. If a Refunding and Consolidating Loan shall be made in a currency other than the currency in which the related Eligible Principal Payment is denominated on the Refunding and Consolidating Loan Date therefor, the relevant Creditor shall promptly notify the Agent of the principal amount of such Refunding and Consolidating Loan and then the Agent shall notify the relevant Creditor and the Paying Agent before the relevant Refunding and Consolidating Loan Date of the exchange rate determined pursuant to paragraph (b) of Section 14.15 hereof which is to be used by such Creditor in making such Refunding and Consolidating Loan.

SECTION 2.03. Refunding and Consolidating Loan Notices. (a) Completion. Each Refunding and Consolidating Loan Notice shall have been executed by the relevant Yugoslav Obligor (or by the Yugoslav bank or financial institution which is a guarantor of such Eligible Principal Payment or by one of the Obligors specified in the definition of "Refunding and Consolidating Loan Notice" on behalf of such relevant Yugoslav Obligor) and the Creditor to whom it is directed, shall be countersigned by the Paying Agent, acting on behalf of the Obligors, shall be initialled by the Administrative Coordinator and shall be received by the Agent and the Paying Agent. Subject to the provisions of Section 7.02 hereof, when a fully completed Refunding and Consolidating Loan Notice, executed as provided herein, shall be received by the Agent and the Paying Agent, it shall be deemed effective. For the purposes of this Agreement, the Agent and the Paying Agent shall be entitled to rely conclusively on any such Refunding and Consolidating Loan Notice. Each of the parties hereto shall use its best efforts to complete and deliver Refunding and Consolidating Loan Notices in respect of Eligible Principal Payments owed by or to it as soon as possible, and in any event, no Refunding and Consolidating Loan Notice shall be effective unless received by the Agent and the Paying Agent on or prior to February __, 1985.

(b) Accuracy of Refunding and Consolidating Loan Notices. Each of the parties to each Refunding and Consolidating Loan Notice agrees to assure the accuracy of the factual information contained therein as of the date thereof, and each such party agrees that the information contained therein may be relied upon by the other parties to this Agreement.

SECTION 2.04. Interest On Eligible Principal Payments. Until the date a Refunding and Consolidating Loan is made in respect thereof, each Eligible Principal Payment shall bear interest at the contractual non-default basis provided for with respect thereto in the Original

Governing Agreement therefor, subject to adjustment as provided in Section 3.10 hereof (which adjustment may be made prior to the date the amount of such adjustment is required to be paid pursuant to said Section 3.10). Such interest shall be payable directly to or for the account of the relevant Creditor in accordance with such Original Governing Agreement. Each Creditor will, for the period (if any) which is after the Effective Date and is between the maturity date of any Eligible Principal Payment held by it and the Refunding and Consolidating Loan Date therefor, endeavor to fund such Eligible Principal Payment in a manner which will minimize any funding indemnity obligations which might otherwise arise from the discharge of such Eligible Principal Payment on such Refunding and Consolidating Loan Date.

SECTION 2.05. Assignment of Eligible Principal Payments. A Creditor may assign an Eligible Principal Payment which has been identified as such in a Refunding and Consolidating Loan Notice by the designation of an assignee in the space included in such Refunding and Consolidating Loan Notice for the specification of the Lending Office which is to maintain the related Refunding and Consolidating Loan, provided that the assignee so designated is an Affiliate of such Creditor and a party to this Agreement. The designation of such an assignee in a Refunding and Consolidating Loan Notice shall be conclusive evidence of the assignment of the Eligible Principal Payment identified in such Refunding and Consolidating Loan Notice as of the Refunding and Consolidating Loan Date of such Eligible Principal Payment. The assignee of an Eligible Principal Payment shall be bound by the terms of the Refunding and Consolidating Loan Notice in which the Eligible Principal Payment is assigned (including, without limitation, the designation of the currency in which the related Refunding and Consolidating Loan is to be made and the Reference Rate to be applicable thereto). An assignment made in a Refunding and Consolidating Loan Notice on account of the Eligible Principal Payment identified therein shall be made without recourse and without representation or warranty, express or implied.

ARTICLE III

FEES AND INTEREST

SECTION 3.01. Facility Fee. The Obligors jointly and severally agree to pay to each Creditor a facility fee in U.S. Dollars on account of the Refunding and Consolidating Loans contemplated to be made by such Creditor hereunder in satisfaction of Eligible Principal Payments constituting Incorporated Debt. Such facility fee shall be in the amount of 7/8% of each such Refunding and Consolidating Loan. Such facility fee shall be payable on the Refunding and Consolidating Loan Date for such Refunding and Consolidating Loan. For the purposes of calculating the facility fee payable on account of any Refunding and Consolidating Loan to be made in a currency other than U.S. Dollars, the currency exchange rate to be used shall be determined pursuant to paragraph (c) of Section 14.15 hereof.

SECTION 3.02. Agency Fee. [The Obligors jointly and severally agree to pay to the Agent an annual fee in respect of the Refunding and Consolidating Loans of each Creditor, which annual fee shall be U.S.$__ per Creditor for the first year and U.S.$__ per Creditor for each subsequent year, each of which annual fees shall be payable on the day 10 Working Days after the Effective Date and on each anniversary thereof so long as any Refunding and Consolidating Loan of such Creditor shall remain outstanding in whole or in part].

SECTION 3.03. Applicable Interest Rate. The Interest Rate applicable to each Refunding and Consolidating Loan to be made by each Creditor shall at all times be the Interest Rate based upon the Reference Rate set forth in the Refunding and Consolidating Loan Notice for such Refunding and Consolidating Loan, provided that, in each case, such Reference Rate is one of the following Reference Rates applicable to such currency:

Currency	Reference Rate Options
Austrian Schillings	Domestic Rate
Canadian Dollars	Domestic Rate

Deutsche Mark	Domestic Rate Fixed Rate Frankfurt Interbank Offered Rate LIBO Rate
Italian Lire	Domestic Rate
Japanese Yen	Domestic Rate Fixed Rate
Swiss Francs	Domestic Rate Fixed Rate LIBO Rate
U.S. Dollars	Domestic Rate LIBO Rate

Each Creditor agrees that it will select with respect to all its Refunding and Consolidating Loans made in any one currency the same Reference Rate. The Reference Rate designated in a Refunding and Consolidating Loan Notice may not be changed.

SECTION 3.04. Interest on Fixed Rate Refunding and Consolidating Loans. The Obligors jointly and severally agree to pay interest on the unpaid principal amount of each Fixed Rate Refunding and Consolidating Loan at the rate equal at all times to the sum of (a) the Fixed Rate applicable to the currency in which such Refunding and Consolidating Loan is made and (b) the Fixed Rate Margin, provided that interest on any overdue principal amount shall be payable as provided in Section 3.08 hereof.

SECTION 3.05. Interest on Domestic Rate Refunding and Consolidating Loans. The Obligors jointly and severally agree to pay interest on the unpaid principal amount of each Domestic Rate Refunding and Consolidating Loan at a fluctuating rate equal at all times to the sum of (a) the Domestic Rate from time to time in effect for the currency in which such Refunding and Consolidating Loan is made and (b) the Domestic Rate Margin, provided that interest on any overdue principal amount shall be payable as provided in Section 3.08 hereof.

SECTION 3.06. Interest on Interbank Rate Refunding and Consolidating Loans. The Obligors jointly and severally agree to pay interest on the unpaid principal amount of each Interbank Rate Refunding and Consolidating

Loan at a rate equal at all times during each Interest Period to the sum of (a) the Frankfurt Interbank Offered Rate for such Interest Period or the LIBO Rate for such Interest Period applicable to the currency in which such Refunding and Consolidating Loan is made (as the case may be) and (b) the Interbank Rate Margin, provided that interest on any overdue principal amount shall be payable as provided in Section 3.08 hereof.

SECTION 3.07. General Interest and Fee Provisions. (a) Computation and Payment of Interest and Fees. Interest on the unpaid principal amount of each Refunding and Consolidating Loan shall accrue during the period from the date of such Refunding and Consolidating Loan to the date such principal amount is paid in full. Interest on each Refunding and Consolidating Loan shall be paid in arrears on each Interest Payment Date. Each interest rate specified in this Agreement is a per annum percentage rate. All computations of interest shall be made on the basis of a year of 360 days for the actual number of days (including the first day but excluding the last day) occurring in the period for which interest is payable.

(b) Determination of Interest Rates. Any Interest Rate based upon a Reference Rate to be determined by the Agent on the basis of quotations received by the Agent from the relevant Reference Banks at any time or from time to time shall be so determined. Each Reference Bank agrees to advise the Agent promptly by telephone, telex, telegram or cable of the applicable rate to be furnished by it to the Agent. If any one or more of the relevant Reference Banks shall not so furnish a quotation of the applicable rate to the Agent for any relevant period, such Reference Rate for such period shall be based upon the quotations furnished to the Agent by the other relevant Reference Banks (if any). The Agent shall give notice by telex to the Paying Agent and each Creditor maintaining Refunding and Consolidating Loans subject to the Interest Rate based upon such Reference Rate of such Reference Rate and such Interest Rate, and such notice shall be conclusive and binding for all purposes, in the absence of manifest error.

(c) Notice of Interest Due; Interest Payments. The Agent shall notify the Paying Agent by telex at least 10 Working Days before each Interest Payment Date of the aggregate amount of interest payable in each currency to the Creditors entitled thereto on such Interest Payment Date, which notice shall be conclusive and binding for purposes of payment, in the absence of manifest error, and be <u>prima facie</u> evidence of the liability of the Obligors therefor, but no failure to give such notice shall affect the obligation of the Obligors or the Paying Agent to pay such interest when due under this Agreement. On each Interest Payment Date, subject to Section 15.02 hereof, the Obligors jointly and severally agree that they will pay to the Agent by payment to the relevant Payment Account for distribution to the appropriate Creditors the accrued interest which shall be due and payable by them in each currency.

(d) <u>Adjustments for Interest Rate Fluctuations</u>. In computing the amount of interest payable on any Interest Payment Date by the Obligors in respect of Refunding and Consolidating Loans subject to the Domestic Rate for any currency, no fluctuations in any such rate occurring after the day 15 Working Days before such Interest Payment Date shall be taken into account. The difference between the amount of interest with respect to such Refunding and Consolidating Loans so computed to be payable by the Obligors on any such Interest Payment Date (other than the last such Interest Payment Date) and the amount that would have been payable had fluctuations in the applicable Domestic Rate been taken into account up to such Interest Payment Date shall be added to, in the case of any underpayment, or subtracted from, in the case of any overpayment, the amount of interest payable by the Obligors on the next succeeding Interest Payment Date.

(e) <u>Substitution of Reference Banks</u>. Any Reference Bank may resign upon written notice to the Agent, <u>provided</u> that in no event shall any such resignation be effective until a successor Reference Bank is appointed and agrees to act hereunder. Promptly upon receipt of notice of resignation by any Reference Bank, the Agent shall, after consultation with the Paying Agent and with the approval of the Requisite Creditors with respect to the Refunding and Consolidating Loans the Interest Rate applicable to which is determined, in part, by quotations from such Reference Bank, appoint a successor Reference Bank and notify the Creditors and the Obligors of such appointment. Such appointment shall be effective when such successor Reference Bank agrees in writing to act as a Reference Bank hereunder.

SECTION 3.08. <u>Overdue Amounts</u>. (a) <u>Interest on Overdue Amounts</u>. In the event that any principal of or interest on any Refunding and Consolidating Loan or other amount due hereunder is not paid when due, the Obligors shall pay interest on such unpaid principal amount or (to the extent permitted by applicable law) unpaid interest or other amount from the date such amount is due to the date such amount is paid in full, payable on demand, at a rate equal to the sum of 1% plus the rate of interest payable on such Refunding and Consolidating Loan under Section 3.04, 3.05 or 3.06 hereof.

(b) Loss Indemnity. Without prejudice to the rights of any Creditor under the provisions of paragraph (a) of this Section 3.08, the Obligors jointly and severally agree to indemnify each Creditor against any loss or expense (other than any loss of anticipated profit) which it may sustain or incur as a result of the failure by the Obligors to pay when due any principal of or interest on any Refunding and Consolidating Loan or any other amount payable hereunder, to the extent (but only to the extent) that any such loss or expense is not recovered pursuant to said paragraph (a). A certificate of any Creditor setting forth the basis for the determination of any amount necessary to indemnify such Creditor in respect of any such loss or expense submitted to the Paying Agent and the Agent shall be conclusive and binding, in the absence of manifest error.

SECTION 3.09. Alternative Rates for Interbank Rate Refunding and Consolidating Loans. (a) Substitute LIBO Rate. If either (i) the Agent receives notice on or before any date on which a LIBO Rate is to be determined by the Agent pursuant to this Article III from over 50% of the LIBO Reference Banks that deposits in any currency are not being offered to such LIBO Reference Banks by prime banks in the London interbank market for the applicable Interest Period or in the applicable amounts, or (ii) the Agent receives notice not later than 3:00 P.M. (London time) on the second Working Day of the applicable Interest Period from Creditors having 50% of the LIBO Rate Refunding and Consolidating Loans for which an interest rate has been determined for such Interest Period for any currency that the LIBO Rate for such currency will not adequately reflect the cost to such Creditors of making, funding or maintaining for the applicable Interest Period the unpaid amounts of their respective LIBO Rate Refunding and Consolidating Loans, the Agent shall forthwith give notice of such event to the Paying Agent and each Creditor having LIBO Rate Refunding and Consolidating Loans in such currency. Within 30 days following the date of any such notice by the Agent, the Agent (after consultation with each Creditor having LIBO Rate Refunding and Consolidating Loans in such currency) and the Paying Agent shall enter into negotiations in good faith with a view to agreeing to an alternative basis acceptable to such Creditors and the Obligors for determining the interest rate which shall be applicable during such Interest Period for the LIBO Rate Refunding and Consolidating Loans in such currency and which shall reflect the cost to the Creditors having LIBO Rate Refunding and Consolidating Loans in such currency of funding such LIBO Rate Refunding and Consolidating Loans for such Interest Period from alternative sources (such interest rate being herein called the "Substitute LIBO Rate" for such currency) plus the Interbank Rate Margin. If, at the expiration of 30 days from the giving of any such notice by the Agent, the Agent and the Paying Agent have agreed to such Substitute LIBO Rate for such currency and the Requisite Creditors and the LIBO Reference Banks have concurred therein, such Substitute LIBO Rate shall take effect with respect to such Interest Period from the beginning thereof.

(b) Non-Agreement on Substitute LIBO Rate. If, at the expiration of 30 days from the giving of any notice by the Agent provided for in paragraph (a) of this Section 3.09, the Agent, the Requisite Creditors, the LIBO Reference Banks and the Paying Agent shall not have agreed to any Substitute LIBO Rate for the relevant currency, the Agent shall (after consultation with each Creditor having LIBO Rate Refunding and Consolidating Loans in such currency) give notice to the Paying Agent and each such Creditor of the rate of interest payable for the applicable Interest Period on each LIBO Rate Refunding and Consolidating Loan in such currency. Such notice shall set forth the computations made by the Agent in determining such rate of interest, which computations shall be made in good faith and shall reflect the actual cost to each Creditor having LIBO Rate Refunding and Consolidating Loans in such currency (as determined and notified to the Agent by such Creditor) of funding for such Interest Period such LIBO Rate Refunding and Consolidating Loans from alternative sources plus the Interbank Rate Margin, provided that if such interest rate shall not, in the good faith opinion of any Creditor, cover its actual cost of funding its LIBO Rate Refunding and Consolidating Loans from alternative sources plus the Interbank Rate Margin, such Creditor may demand through the Agent from the Paying Agent such additional amounts as are necessary to cover such cost plus the Interbank Rate Margin, and any such demand in reasonable detail shall be conclusive and binding, in the absence of manifest error. The Obligors jointly and severally agree to pay interest computed pursuant to this paragraph (b) on account of applicable LIBO Rate Refunding and Consolidating Loans until such time as the LIBO Reference Banks are satisfied that a reasonable LIBO Rate shall be available with respect to deposits in the relevant currency in the London interbank market.

(c) Repetition of Alternative Rate Fixing. If, at the commencement of any Interest Period next succeeding an Interest Period as to which an interest rate has been determined pursuant to paragraph (a) or (b) of this Section 3.09, one of the events referred to in clause (i) or (ii) of said paragraph (a) continues without remedy, the provisions of this Section 3.09 shall again be applicable.

(d) Substitute Frankfurt Interbank Offered Rate. The provisions of paragraphs (a), (b) and (c) of this Section 3.09 shall apply *mutatis mutandis* with respect to the Frankfurt Interbank Offered Rate.

SECTION 3.10. Adjustment of Interest on Eligible Principal Payment. (a) Agreement to Make Adjustment in Favor of a Creditor. The Obligors jointly and severally agree with each Creditor with respect to each Eligible Principal Payment held by such Creditor that, on the Refunding and Consolidating Loan Date of such Eligible Principal Payment, an adjustment will be made on account of the interest paid or payable on such Eligible Principal Payment for the period from the maturity date of such Eligible Principal Payment to such Refunding and Consolidating Loan Date. The amount of such adjustment (the "Interest Adjustment Amount" for such Eligible Principal Payment) will be equal to the excess (if any) of (i) the interest that would have been payable on such Eligible Principal Payment for such period had the margin included within the interest rate applicable thereto been the same as the Applicable Margin included within the Interest Rate applicable to each Refunding and Consolidating Loan the Interest Rate for which is determined by reference to the same (or to substantially the same) base rate as the interest rate applicable to such Eligible Principal Payment for such period (or, in the case of any Eligible Principal Payment denominated in a currency which is not a Permitted Currency, a margin which is equal to 1-1/2%, unless such Eligible Principal Payment bears interest at a rate based upon an interbank or money market rate, in which event the applicable margin will be 1-5/8%) over (ii) the interest actually paid thereon (pursuant to

Section 12.04 or otherwise), or, if such interest has not been paid, the interest payable on such Eligible Principal Payment (exclusive of any portion of such interest payable representing interest computed on an enhanced post default rate), for such period under the terms of its Original Governing Agreement; provided, however, that nothing in this Section 13.10 shall affect the right (if any) of any Creditor under law or the relevant Original Governing Agreement to calculate the interest payable on any Eligible Principal Payment owing to it for the period from the maturity date of such Eligible Principal Payment to the Refunding and Consolidating Loan Date thereof by reference to a non-default base rate (including a non-default base rate which is the cost of funds for such Creditor) different from the non-default base rate on the basis of which interest was payable on such Eligible Principal Payment for the period prior to such maturity date. Such adjustments will be made by the Obligors making payments to such Creditor immediately upon an agreement being made between the Obligors and such Creditor as to such Interest Adjustment Amount, but in any event prior to the later of the date 90 days from the Effective Date or the Refunding and Consolidating Loan Date for such Eligible Principal Payment. In the event of a dispute between the Obligors and any Creditor as to the Interest Adjustment Amount payable to such Creditor in respect of any Eligible Principal Payment on the date when such Interest Adjustment Amount is required to be paid, the amount claimed by the Creditor to be payable shall be placed in escrow as contemplated in Section 14.16 hereof for subsequent payment.

(b) Other Agreements with respect to Interest Adjustments. Each Creditor hereby agrees with and for the benefit of each Original Borrower from whom such Creditor is owed an Eligible Principal Payment (any such Original Borrower who is not a party hereto being hereby expressly stated to be a third-party beneficiary of this paragraph (b)) that on the first Interest Payment Date to occur on or after the Refunding and Consolidating Loan Date of such Eligible Principal Payment such Creditor will pay to such Original Borrower an amount equal to the excess (if any) of (i) any interest actually received during the period from the maturity date of such Eligible Principal Payment to such Refunding and Consolidating Loan Date as interest computed on an enhanced post default rate in relation to such Eligible Principal Payment under its Original Governing Agreement over (ii) the interest that would have been payable on such Eligible Principal Payment for such period had the margin included within the interest rate applicable thereto been the same as the Applicable Margin included within the Interest Rate applicable to each Refunding and Consolidating Loan the Interest Rate for which is determined by reference to the same (or to substantially the same) base rate as the interest rate applicable to such Eligible Principal Payment (or, in the case of any Eligible Principal Payment denominated in a currency which is not a Permitted Currency, a margin which is equal to 1-1/2%, unless such Eligible Principal Payment bears interest at a rate based upon an interbank or money market rate, in which event the applicable margin will be 1-5/8%).

(c) Procedure for Adjustments. Each of the parties to this Agreement agrees to cooperate in the process of reconciling claims for amounts due under this Section 3.10 and for Arrears contemplated to be paid pursuant to paragraph (b) of Section 7.03 hereof and, in connection therewith, to provide promptly to the Administrative Coordinator all information and documents necessary to enable the Administrative Coordinator to assist in the resolution of any dispute. The costs and expenses reasonably incurred by the Creditors in such process (including, without limitation, the fees and expenses of the Administrative Coordinator relating to such process) shall be for the joint and several account of the Obligors, provided that such costs and expenses (other than such fees and expenses of the Administrative Coordinator) shall be for the account of the Obligors only to the extent that they arise after the Administrative Coordinator has completed its reconciliation procedures.

ARTICLE IV

PROVISIONS FOR REPAYMENT OF PRINCIPAL

SECTION 4.01. Stated Payments. The Obligors jointly and severally agree to repay to each Creditor the principal amount of each Refunding and Consolidating Loan made by such Creditor in seven consecutive semi-annual installments, on the 18th day of each April and October, commencing on April 18, 1988 and ending on April 18, 1991 (each such date being herein called a "Principal Payment Date"). Each installment shall be in the amount of one-seventh of the principal amount of such Refunding and Consolidating Loan as of the Refunding and Consolidating

Loan Date applicable thereto (or as near to such amount as may be practicable), provided that the last such installment shall be in the amount necessary to repay in full the unpaid principal amount of such Refunding and Consolidating Loan.

SECTION 4.02. Mandatory Prepayments. (a) Making of Application. If, at any time during the period from [January 18, 1983] to the date hereof, any Obligor, the Guarantor or any other Yugoslav Obligor or any corporation or other business entity (whether Yugoslav or non-Yugoslav) which is owned or controlled by a Yugoslav Obligor has caused or allowed, or if at any time thereafter any Obligor, the Guarantor or any other Yugoslav Obligor or any such corporation or business entity shall cause or allow, directly or indirectly, any International Monetary Assets or Exportable Assets to be applied in satisfaction (in whole or in part) of any Principal Payment (other than an Eligible Principal Payment in respect of which a Refunding and Consolidating Loan has been made), the provisions of paragraph (b) of this Section 4.02 shall be applicable; provided, however, that such provisions shall not be applicable:

(i) if such application has been or shall be in satisfaction of any Principal Payment (A) owing to a Cooperating State, (B) owing to the BIS, the IMF, the IBRD or any other comparable international financing organization or (C) in the nature of indebtedness for the deferred purchase price of property or services and owing to a person (other than a bank or financial institution) furnishing or supplying such property or services;

(ii) if, after giving effect to such application, (A) the fraction the numerator of which is the remaining principal amount of the Principal Payment to which such application has been made and the denominator of which is what the outstanding principal amount of such Principal Payment was as at the close of business on January 17, 1983 (or on the Final Advance Date of such Principal Payment, if such Final Advance Date is later than January 17, 1983) is not less than (B) the fraction the numerator of which is the remaining principal amount of any Refunding and Consolidating Loan and the denominator of which is what the outstanding principal amount of the Eligible Principal Payment relating thereto was at the close of business on January 17, 1983 (or on the Final Advance

Date of such Eligible Principal Payment, if such Final Advance Date is later than January 17, 1983);

(iii) if, during the period from the date of such application to the First Refunding and Consolidating Loan Date, the person holding such Principal Payment as at the date of such application shall have made a loan or advance to the Original Borrower of such Principal Payment (or to an Obligor in the place of such Original Borrower) in the amount of such application with the effect of restoring to such Original Borrower (or such Obligor) such Principal Payment; or

(iv) if such Principal Payment is a payment to a person not a Creditor with respect to External Indebtedness which would have constituted Secured Debt if owed to a Creditor were the details thereof to have been identified to the Administrative Coordinator as contemplated by the proviso to clause (i) of the definition of "Secured Debt" in Section 1.01 hereof.

(b) Effect of Application. Upon the provisions of this paragraph (b) becoming applicable as provided in paragraph (a) of this Section 4.02, the Agent shall, if and upon being so instructed by the Majority Creditors, (i) make demand of the Obligors for ratable mandatory prepayments of the Refunding and Consolidating Loans then outstanding in an aggregate amount of up to an amount equal to that proportion of the Refunding and Consolidating Loans outstanding as of February 18, 1985 which is the same as the proportion obtained by dividing (A) the amount of the application of International Monetary Assets or Exportable Assets causing the provisions of this paragraph (b) to become applicable (after deducting therefrom any part of such application which would not by itself have caused the provisions of this paragraph (b) to become applicable) by (B) the amount of the Principal Payment to which such application has been made as such amount was outstanding as at the close of business on January 17, 1983 (or on the Final Advance Date of such Principal Payment, if such Final Advance Date is later than January 17, 1983) and (ii) if such application shall be made on or before February 18, 1985, make demand of the Obligors for a mandatory prepayment on each Refunding and Consolidating Loan Date after the date of such demand of the Refunding and Consolidating Loans made on such Refunding and Consolidating Loan Date in an aggregate amount of up to an amount equal to that proportion of such which is the same as the proportion obtained by dividing (A) the amount of the application of International Monetary Assets or Exportable Assets causing the provisions of this paragraph (b) to become applicable (after deducting therefrom any part of such application which would not by itself have caused the provisions of this paragraph (b) to become applicable) by (B) the amount of the Principal Payment to which such application has been made as such amount was outstanding as at such close of business. Any demands made pursuant to the provisions of this paragraph (b) shall be made ratably with regard to the outstanding Refunding and Consolidating Loans and, if such demand is made on or before February 18, 1985, the Refunding and Consolidating Loans to be made after the date of such demand; and each such demand shall be made on the Obligors by notice to the Paying Agent.

(c) Refinancing or Extension of Eligible Principal Payments Not Covered By This Agreement. The Obligors jointly and severally represent and warrant to, and agree with, each Creditor and the Agent that any agreement or commitment to which any of them is or becomes a party, or by which any of them is or becomes bound, that provides for the deferral, refinancing or extension of any Principal Payment which is not an Eligible Principal Payment or a Principal Payment described in subparagraph (i) or (ii) of paragraph (a) of this Section 4.02 will not include terms with regard to tenor, principal installment dates and amounts or fees or interest rates that are more favorable to the creditor or creditors parties thereto than the tenor, principal installment dates and amounts or fees or interest rates applicable to the Refunding and Consolidating Loans.

SECTION 4.03. Voluntary Prepayments. The Obligors may, upon giving the Agent irrevocable prior written notice at least thirty days before the date thereof, prepay the outstanding aggregate principal amount of the Refunding and Consolidating Loans in whole or ratably in part on the last day of any Interest Period, provided that (a) each whole or partial prepayment of any Refunding and Consolidating Loans shall be made and applied simultaneously and ratably to all Refunding and Consolidating Loans (as the case may be) in the currency of each such Refunding and Consolidating Loan, (b) each partial prepayment of the Refunding and Consolidating Loans shall be in an amount not less than the equivalent of U.S.$25,000,000 and (c) partial prepayments shall be applied to the principal installments of each Refunding and Consolidating Loan in the inverse order of maturity.

ARTICLE V

GENERAL PAYMENT PROVISIONS

SECTION 5.01. Currency of Payment. All payments of principal of and interest on each Refunding and Consolidating Loan shall be made by the Obligors through the Paying Agent for the joint and several account of the Obligors in the currency in which such Refunding and Consolidating Loan is made. Each other payment by the Obligors shall be made through the Paying Agent for the joint and several account of the Obligors in U.S. Dollars or in such other currency as is specified hereunder for such other payment or in which the same are otherwise denominated when due for payment.

SECTION 5.02. Procedures for Payments. (a) Type of Funds and Place of Payment. Each payment in each currency shall be made in freely transferable funds and shall be made in same day funds or such other funds as may at the time of payment be customary in the place of payment for the settlement of international payments in such currency. Each payment on account of principal, interest, fees or any other obligation of any Obligor hereunder shall be made in the relevant currency and shall be made in time to be credited in accordance with normal banking procedures in the place of payment to the Payment Account for such currency prior to 11:00 A.M. (local time) on the day payment is due and in any event, in order to assure timely payment, the funds required to make any such payment (other than any such payment on account of the facility fees, the agency fee or the costs and expenses payable pursuant to Section 14.05 hereof) shall be on deposit with the Agent in the Payment Account at least three Banking Days prior to the date such payment must be made to one or more Creditors. The Agent agrees that, to the extent practicable in its sole discretion, it will invest any funds so placed on deposit in any Payment Account with prime banks in the local interbank call market (or any similar market) in the city in which such Payment Account is located (but the Agent shall not be liable for any investment losses) and, whenever no obligations of the Obligors are owing hereunder, pay over the earnings on such funds to the Paying Agent for the account of the Obligors.

(b) Special Purpose Payment Account. Each Payment Account shall be a special purpose account for the sole benefit of the Creditors and the Agent from which the sole application of credit shall be by the Agent and shall be in accordance with the provisions of this Agreement. Each payment by the Paying Agent or an Obligor into a Payment Account shall be for the special purpose of payment to the Agent and the Creditors and shall be the property of the Agent and such Creditors entitled thereto from the time of such payment.

(c) Payments to Agent. Each payment of (i) facility fees payable pursuant to Section 3.01 hereof, (ii) the agency fee payable pursuant to Section 3.02 hereof, (iii) interest on and principal of the Refunding and Consolidating Loans, (iv) costs and expenses payable pursuant to Section 14.05 hereof and (v) any other amount which the relevant provision hereof expressly requires to be paid to the Agent shall be paid to the Payment Account for the relevant currency for the account of the party or parties entitled thereto.

(d) Notice of Payment Dates. At least 10 Working Days before the day on which a payment hereunder is required to be standing to the credit of the relevant Payment Account pursuant to paragraph (a) of this Section 5.02 ~~(except that, in the case of any such payment on account of the facility fees payable on any Refunding and Consolidating Loan Date, such period shall be at least one Working Day)~~, the Agent shall notify the Paying Agent of the total amount of such payment and in doing so shall identify separately sums owed in respect of principal, interest, fees and other obligations, but no failure to give such notice shall affect the obligation of the Obligors or the Paying Agent to make any such payment when due under this Agreement.

SECTION 5.03. Application of Payments. (a) In the event that ~~on the~~ day three Banking Days before any Payment Date, the Agent shall not have in the Payment Accounts sufficient funds to pay in full the interest and principal due and payable hereunder on such Payment Date, the Agent shall (to the extent that it shall not have reason to believe that sufficient funds will be received on or before such Payment Date) enter into currency exchange transactions on such dates and in such amounts and currencies as it, in its sole discretion, shall determine are appropriate in order to enable it to distribute on such Payment Date ratably among the Creditors in the following order of priority the funds in the Payment Accounts:

(i) first, to all amounts originally due and payable at least three Banking Days before such Payment Date on account of facility fees and the agency fee hereunder;

(ii) second, to all amounts originally due and payable on or before such Payment Date on account of interest; and

(iii) third, to all amounts originally due and payable on or before such Payment Date on account of principal.

If such currency exchange transactions do not yield the precise amount of each currency required for ratable distributions, the Agent shall nonetheless distribute the full amount of each currency held by it for distribution, and shall not be required to enter into any further currency exchange transactions so long as it distributes in each currency a percentage of the amount to be distributed in such currency which is at least 95% of the highest such percentage distributed in any other currency, provided that the Obligors shall remain obligated to pay each Creditor in the relevant currency the unpaid amount of principal and interest due in respect of its Refunding and Consolidating Loans and other unpaid amounts after giving effect to any such currency exchange transactions. Any resulting failure to make a distribution on an exact ratable basis shall be taken into account and adjusted, to the extent practicable, during the period from the date three Banking Days before the next succeeding Payment Date to such next succeeding Payment Date (with the actions required by this sentence to be repeated as often as may be necessary so that distributions hereunder shall be made on an exact ratable basis). The Obligors jointly and severally agree to indemnify the Agent and each Creditor on demand for any cost, expense or loss incurred by it in connection with the currency exchange transactions required by this paragraph (a).

(b) Application by Creditor. Any Creditor may apply funds received by it pursuant to paragraph (a) of this Section 5.03 in a different order, but such application shall not affect the duties of the Agent or the obligations of the Paying Agent or the joint and several obligations of the Obligors hereunder.

(c) Agent's Requirement to Make Ratable Application. In the event that the Agent under this

Agreement or in its capacity as agent under the Short-Term Facilities Agreement or the 1983 Financing Agreement shall receive funds for payment of obligations under this Agreement and in respect of the "Extension Loans" under the Short-Term Facilities Agreement and the "Advances" and "Refunding and Consolidating Loans" under the 1983 Financing Agreement which are due and payable on the same date, but the funds received by it are not in the aggregate sufficient to pay all of said obligations in full, then the Agent is hereby authorized and directed to aggregate any funds that are delivered to it for payment of such obligations and that are not designated as being provided for the payment of obligations under this Agreement or in respect of the "Extension Loans" under the Short-Term Facilities Agreement or the "Advances" or "Refunding and Consolidating Loans" under the 1983 Financing Agreement and to make a ratable payment on account of the obligations due and payable under this Agreement and in respect of the "Extension Loans" under the Short-Term Facilities Agreement and the "Advances" and "Refunding and Consolidating Loans" under the 1983 Financing Agreement, on the same day (with such ratable payment to be determined by reference to the aggregate principal amounts outstanding under this Agreement and in respect of the "Extension Loans" under the Short-Term Facilities Agreement and the "Advances" and "Refunding and Consolidating Loans" under the 1983 Financing Agreement).

SECTION 5.04. Payments to Be on Certain Days. Whenever any payment hereunder shall be stated to be due, or whenever the last day of any Interest Period would otherwise occur, on a day other than a day which is both a Business Day and a day on which banks are open for domestic and foreign exchange business in the city in which the Payment Account from or to which such payment is to be made is located, such payment shall be made, and the last day of such Interest Period shall occur, on the next succeeding such day, and such extension of time shall in such case be included in the computation of payment of interest.

SECTION 5.05. No Set-Off or Counterclaim. To the fullest extent permitted by law, the Obligors (and the Paying Agent, as their representative) shall make all payments hereunder unconditionally in full without set-off, defense or counterclaim or reduction for any reason whatever, including, without limitation, any defense or counterclaim based on any law, rule or policy which is now or hereafter promulgated by any governmental authority or regulatory body and which may adversely affect the obligation to make, or the right of any Creditor to receive, such payments.

SECTION 5.06. Sharing. (a) General Requirement of Sharing. Each Creditor agrees that if it shall at any time, through exercise of a right of banker's lien, set-off, litigation (other than any litigation as to which the Majority Creditors have given their consent) or counterclaim or otherwise, obtain payment with respect to the principal of or interest on Refunding and Consolidating Loans owed to it that is proportionately greater than the payment obtained by any other Creditor with respect to the principal of and interest on Refunding and Consolidating Loans owed to such other Creditor, the Creditor obtaining such proportionately greater payment shall purchase from each such other Creditor, in the manner and on the terms set forth in this Section 5.06, a participation in the principal of and interest on such other Refunding and Consolidating Loans in such amount (and such other adjustments shall be made from time to time) as shall be required to ensure that the Creditors share such payments ratably as contemplated by this Section 5.06, provided that the obligation to share as required by this Section 5.06 shall not exist until a Notice of Default has been received by the Agent or there has been a Sharing Request (as hereinafter defined), whereupon each Creditor shall perform its obligations under this Section 5.06 strictly in accordance with its terms, and provided, further, that this Section 5.06 shall not impair any right of any Creditor to apply amounts recovered by it to pay indebtedness other than amounts due under this Agreement. Disproportionate payments of interest shall be shared by the purchase of separate participations in unpaid interest obligations and disproportionate payments of principal shall be shared by the purchase of separate participations in unpaid principal obligations. For purposes of this Section 5.06, a "Sharing Request" means a notice to the Agent by any Creditor stating that such Creditor has not received a payment of interest or principal or other amount due to such Creditor hereunder, that such Creditor considers such unpaid amount to be significant and that such Creditor requests that the Agent promptly solicit the consent of the Majority Creditors that the sharing provisions of this Section 5.06 be implemented and the acquiescence of the Majority Creditors in the request is obtained by the Agent.

(b) Notifications. The Agent shall immediately notify each Creditor of its receipt of a Sharing Request, which notice shall identify (i) the Creditor or Creditors submitting such Sharing Request and (ii) the first of the successive periods of three calendar months commencing on the date on which the obligation to share pursuant to paragraph (a) of this Section 5.06 comes into existence (each such period being herein called a "Reporting Period"). Each Creditor shall immediately notify the Agent (i) whether or not it acquiesces in such Sharing Request and (ii) the amount and type of any payment obtained by such Creditor other than through the Agent of any amount of principal or interest due to such Creditor under this Agreement. The Agent shall promptly notify the other Creditors thereof. If the Majority Creditors acquiesce in such Sharing Request, it shall then be deemed an "Active Sharing Request" until terminated. If an Active Sharing Request is in force or a Notice of Default has been received by the Agent, the provisions of paragraphs (c) through (j) of this Section 5.06 shall be applicable.

(c) Reports by Creditors. Within 10 days after the end of each Reporting Period, each Creditor shall deliver a report to the Agent stating whether or not it obtained any payment of principal or interest during such Reporting Period and, if so, the separate amounts of such payments (in the case of each such payment, net of any out-of-pocket expenses incurred by such Creditor in obtaining such payment and not otherwise reimbursed to such Creditor) received for principal or interest (and, in the case of the first such Reporting Period, the existence and amounts of any payments received by such Creditor prior to such Reporting Period), provided that a Creditor need not report any such payment received as a distribution of funds by the Agent.

(d) Calculations. On the first Business Day at least 20 days after the end of each Reporting Period (any such day being herein called a "Calculation Date"), the Agent shall:

(i) determine the aggregate amounts of all payments for principal and interest reported to the Agent pursuant to paragraph (c) of this Section 5.06 within the time period therein specified (excluding payments shared pursuant to this Section 5.06 as of any previous Calculation Date);

(ii) determine the portions of such aggregate amounts of principal and interest that would be allocated to each Creditor that has delivered a report in respect of such Reporting Period (each such Creditor being herein called a "<u>Reporting Creditor</u>") to ensure that the Reporting Creditors share such aggregate amounts ratably in proportion to the aggregate unpaid principal and interest owed to a Reporting Creditor as of the end of the immediately preceding Reporting Period;

(iii) give notice by telex or cable to each Reporting Creditor that has received payments of principal or interest in excess of its ratable share, specifying (A) the amounts of such excess in U.S. Dollars and the amounts of participations in the principal of or interest on the Refunding and Consolidating Loans owed to other Reporting Creditors in each currency to be purchased by such Creditors with such excess to accomplish such ratable sharing and (B) the date on which sharing payments shall be made, which day shall be the first Banking Day at least five days after the relevant Calculation Date (such date being herein called a "<u>Creditor Payment Date</u>"); and

(iv) give notice by telex or cable to each Reporting Creditor that has received payments of principal or interest of less than its ratable share specifying the aggregate amounts of participations in the principal of or interest on the Refunding and Consolidating Loans owed to it to be purchased from it to accomplish such ratable sharing.

(e) <u>Payment for Participations</u>. On each Creditor Payment Date, each Creditor required to purchase participations shall pay the excess amounts specified in the notice provided on the related Calculation Date to the Agent in the currency in which such excess amounts were received by such Creditor. The Agent shall convert all such payments received by it in currencies other than U.S. Dollars into U.S. Dollars and for such purpose is authorized to enter into currency exchange transactions on such dates and in such amounts as it, in its sole discretion, shall determine. On the first Banking Day at least 15 days after the Calculation Date and from time to time thereafter, at such intervals as the Agent in its sole discretion shall determine (but, in any event, on the Banking Day following any Banking Day on which U.S.$5,000,000 becomes available for distribution under this paragraph (e)), the Agent shall distribute to the Creditors from which participations are to be purchased their respective proportionate shares of the U.S. Dollars theretofore received by the Agent pursuant to this paragraph (e) (less any commissions or other costs arising out of such currency exchange transactions). No adjustment shall be made in the amount of any participation because the exchange value of any U.S. Dollars received by the seller of such participation is different on the date of receipt from the exchange value used to determine the amount of such participation or because commissions and other costs were deducted from amounts otherwise payable to such Creditor or because of any fluctuation of exchange rates, and the Obligors jointly and severally agree to indemnify such Creditor on demand in respect of any loss suffered by it on account of no such adjustment being effected. To the extent practicable in its sole discretion, the Agent shall invest the funds held by it from time to time pursuant to this paragraph (e) with prime banks in an interbank call market (or any similar market), but the Agent shall not be liable or responsible for any investment losses; and, the interest earned on such funds shall be distributed proportionately to the Creditors from which participations are purchased.

(f) Accounting for Participations. The Agent shall keep records (which shall be conclusive absent manifest error) of participations purchased and sold pursuant to this Section 5.06. Notwithstanding any provisions hereof to the contrary, the Agent shall give effect to the purchases and sales of participations reflected from time to time in such records for purposes of (i) subsequent distributions to the Creditors pursuant to this Article V and (ii) subsequent calculations and distributions pursuant to this Section 5.06. The rights of the owner of any such participation in a Refunding and Consolidating Loan against the Creditor to which such Refunding and Consolidating Loan is owed shall, except as otherwise provided in the next succeeding sentence, be limited to the right to receive distributions with respect thereto from the Agent as provided in this Section 5.06 and to share in any other payments received by such Creditor as provided in this Section 5.06. It is understood that each Creditor purchasing a participation in any Refunding and Consolidating Loans pursuant to this Section 5.06 shall acquire all voting rights with respect to its share of such Refunding and Consolidating Loans. The Obligors agree that any Creditor so purchasing a participation from another Creditor pursuant to this Section 5.06 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Creditor were the direct creditor of the Obligors in the amount of such participation.

(g) Interest on Sharing Payments in Default. Any Creditor which defaults in its obligation to make a sharing payment pursuant to paragraph (e) of this Section 5.06 shall pay interest to the Agent for the account of the Creditors entitled to participate in the sharing payment of such Creditor, such interest to accrue on the amount of the sharing payment in default from the relevant Creditor Payment Date, to be payable on demand and to be calculated at a rate per annum equal to the highest interest rate applicable from time to time to the Refunding and Consolidating Loans of such defaulting Creditor in the currency in which such sharing payment is required to be made, or if there are no such Refunding and Consolidating Loans of such defaulting Creditor then outstanding, to the highest interest rate which would be applicable to such Refunding and Consolidating Loans if they were outstanding.

(h) Rescission of Shared Payment. If any payment obtained by any Creditor from any Obligor or the Guarantor is rescinded or otherwise restored, and such payment has been shared by such Creditor pursuant to the provisions of this Section 5.06, then each Creditor shall promptly return to the Agent for the account of such Creditor the amount in U.S. Dollars calculated by the Agent to be attributable to the amount of the payment previously shared which is rescinded or restored. Any Creditor which defaults on its obligation to return any such amount shall pay interest to the Agent for the account of the Creditor entitled to such amount, such interest to accrue from the day on which such Creditor shall have received notice of its obligation to return such amount, to be payable on demand and to be calculated in the manner described in paragraph (g) of this Section 5.06.

(i) Further Implementation. The Agent may (but shall not be required to) suggest such additional procedures or adjustments under this Section 5.06 as it in its reasonable discretion may consider necessary or appropriate to effectuate the purposes of this Section 5.06 but no such suggestion by the Agent shall bind or change the obligations of the Creditors or the Agent under this Section 5.06 unless accepted in writing by the Extra-majority Creditors.

(j) Acknowledgment. The Paying Agent and the Obligors acknowledge and consent to the foregoing provisions of this Section 5.06. The Agent shall promptly notify the Obligors through the Paying Agent of the Creditors purchasing and selling participations under this Section 5.06 and the respective amounts thereof.

(k) Exchange Rates. For purposes of calculations under this Section 5.06, the Agent shall convert to U.S. Dollars all relevant amounts in other currencies at the appropriate exchange rate for the relevant Calculation Date in the manner contemplated in paragraph (d) of Section 14.15 hereof and shall make distributions pursuant to paragraph (e) of this Section 5.06 on the basis of the U.S. Dollar amounts so calculated.

SECTION 5.07. Payments Subsequently Repaid. If all or any portion of any payment to the Agent or any Creditor in respect of any amount payable by any Obligor hereunder and paid by such Obligor or by the Guarantor under the Guaranty shall at any time be repaid in compliance with an order of a court of competent jurisdiction, the Obligors shall concurrently with such repayment become obligated hereunder to make a payment in the same amount to the Agent or such Creditor, as the case may be. Such obligation shall be deemed to arise at the time of such repayment for purposes of any statute of limitations.

SECTION 5.08. Funds Incorrectly Disbursed. If due to inaccurate instructions from the Paying Agent, any Obligors or the Guarantor, the Agent disburses funds to any Creditor either (a) in excess of the ratable share allocable to such Creditor or (b) on an assumption which proves to be inaccurate that sufficient funds for such payment have been provided to the Agent by the Paying Agent, the Obligors or the Guarantor, then upon receipt of notice of such incorrect disbursement (which notice shall be given as soon as practicable and to the extent possible within 30 days of the date of such incorrect disbursement), the recipient Creditor shall promptly remit a like amount, in the same currency and in funds similar to those incorrectly disbursed, to the Agent (for the account of the party or parties entitled to such funds), together with interest thereon for each day during which such recipient Creditor, in accordance with its ordinary practice, is able to place with a prime bank in the London interbank market or in the relevant domestic market (as the case may be) such amount as a deposit in the currency in which such amount is denominated, calculated at the rate per annum equal to the rate at which call deposits in such currency are offered by the Agent to prime banks in the London interbank market for such day or, if no call deposits are so offered in such currency, at the rate per annum equal to the Domestic Rate for such currency. This Section 5.08 is without prejudice to any rights that the Paying Agent, any

Obligors or the Guarantor may have with respect to funds incorrectly disbursed.

SECTION 5.09. Increased Costs. (a) Payment of Increased Costs. If any Creditor determines that due to either (i) any law or regulation, or any change (including, without limitation, any change by way of imposition or increase of reserve requirements or in the basis of taxation applicable to such Creditor or its Lending Office) in or in the interpretation of any law or regulation (including, but not limited to, any tax law or regulation) or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law, but only if compliance therewith is in accordance with normal banking practice), (A) there shall be any increase (other than in the overall net income taxes of such Creditor) in the cost to such Creditor of agreeing to make, making, funding or maintaining its Refunding and Consolidating Loans or (B) there shall be any reduction in the amount of any payment received or receivable by such Creditor in respect of its Refunding and Consolidating Loans or (C) such Creditor suffers any loss or damage or makes any payment or foregoes any interest with respect to this Agreement, then the Obligors shall from time to time, upon demand by such Creditor (with a copy of such demand to the Agent), pay to the Agent for the account of such Creditor additional amounts sufficient to indemnify such Creditor in the currency in which such Refunding and Consolidating Loans may be outstanding against such increased cost or reduction, other loss or damage or foregone interest. A certificate as to the amount of such increased cost, reduction, loss, damage or foregone interest (and specifying in reasonable detail the reason therefor and calculation thereof), submitted to the Paying Agent and the Agent by such Creditor, shall be conclusive and binding for purposes of payment, in the absence of manifest error.

(b) Change of Lending Office, etc. Each Creditor agrees that, upon the occurrence of any event giving rise to the operation of paragraph (a) of this Section 5.09 with respect to such Creditor it will, if requested by the Paying Agent or the Obligors and to the extent permitted by law or by the relevant governmental authority, in consultation with the Agent, for a period of 30 days endeavor in good faith to avoid or minimize the increase of costs or reduction in payments resulting from such event (including, but not limited to, endeavoring to change its Lending Office); provided, however, that (i) any dispute as to the amount of the liability of the Obligors in respect of such increased costs or reduction in payments has been resolved and (ii) such action can be taken in such a manner that such Creditor, in its sole determination, suffers no economic, legal or regulatory or other disadvantage. Any expenses incurred by such Creditor in so doing shall be paid by the Obligors upon delivery to the Obligors of a certificate as to the amount of such expenses, which certificate shall be conclusive and binding, in the absence of manifest error. Nothing in this paragraph (b) shall affect or postpone the obligations of the Obligors to make payments as provided in paragraph (a) of this Section 5.09.

SECTION 5.10. Taxes. (a) Payments Free and Clear. Any and all payments by the Obligors or the Paying Agent or any paying agent therefor under this Agreement shall be made free and clear of and without deduction for or on account of any and all present or future taxes, levies, imposts, deduction, charges or withholding, and all liabilities with respect thereto, which are imposed by Yugoslavia or any political subdivision or taxing authority thereof or therein or which are other than a tax on overall net income and are imposed by any jurisdiction through or from which any payment under this Agreement is made or any political subdivision or taxing authority thereof or therein (all such taxes, levies, imposts, deductions, charges, withholdings and liabilities, being herein called the "Applicable Taxes"). If the Paying Agent or any Obligor or any paying agent therefor shall be required by law to deduct any Applicable Taxes (or to deduct any other amount which, but for the phrase "to the fullest extent permitted by law" contained in Section 5.05 hereof, would not be permitted to be deducted under the provisions of said Section 5.05) from or in respect of any sum payable hereunder to any Creditor or the Agent (including any sum payable hereunder to a Payment Account), (i) the sum payable shall be increased by the Obligor and the Paying Agent as may be necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 5.10) such Creditor or the Agent (as the case may be) receives and retains an amount equal to the sum it would have received had no such deductions been made, (ii) the Obligors shall make such deductions, (iii) the Obligors shall pay for the account of such Creditor or the Agent the full amount deducted to the relevant taxing authority or other authority in accordance with applicable law, and (iv) the Obligors shall indemnify the Creditors and the Agent for any interest or penalties for any failure to report or to pay the same.

(b) Notice. If at any time any Applicable Taxes become payable by the Paying Agent or any Obligor, or if there is any change in the rates of such Applicable Taxes, any party receiving such knowledge thereof shall promptly notify the Agent.

(c) Payment of Stamp, Excise, Other Taxes, etc. The Obligors agree to pay any present or future excise, stamp, court or documentary taxes or any other property taxes, charges or similar levies (which are taxes other than a tax on net income) imposed by Yugoslavia or any other jurisdiction or any political subdivision thereof or taxing authority therein which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement ("Other Applicable Taxes").

(d) Reimbursement of Applicable Taxes Paid by Creditors. The Obligors agree jointly and severally that they will indemnify each Creditor and the Agent for the full amount of Applicable Taxes or Other Applicable Taxes (including, without limitation, any Applicable Taxes or Other Applicable Taxes imposed on amounts payable under this Section 5.10) paid by such Creditor or the Agent (as the case may be) or any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Applicable Taxes or Other Applicable Taxes were correctly or legally asserted, provided that prompt notice of the assertion of such Applicable Taxes or Other Applicable Taxes shall have been given, if practicable, to the Paying Agent before the payment thereof. Payment pursuant to this indemnification shall be made within 30 days from the date such Creditor or the Agent (as the case may be) makes written demand therefor.

(e) Other Kinds of Taxes. Without prejudice to the other provisions of this Section 5.10, if the Agent or any Creditor is required by law to make any payment on account of any tax (whether or not an Applicable Tax but not being a tax on all or part of its net income levied in the jurisdiction in which it is incorporated or in which, in the case of a Creditor, its Lending Office is located) on or in relation to any sum received or receivable by the Agent or such Creditor hereunder or any liability in respect of any such payment is asserted, imposed, levied, or assessed against any such person, the Obligors will, upon demand of such person and whether or not such payment or liability be correctly asserted, imposed, levied or assessed, indemnify such person against such payment or liability, together with any interest, penalties and expenses payable or incurred in connection therewith.

(f) Tax Certificates. Within 30 days after the date of any payment of Applicable Taxes, the Paying Agent or the Obligors (as the case may be) will furnish to the Agent (for photocopying and distribution to the Creditors), at its address referred to in Section 14.02 hereof, the original or a certified copy of a receipt evidencing the amount and payment thereof.

(g) Survival. Without prejudice to the survival of any other agreement of the Obligors hereunder, the agreements and obligations of the Obligors contained in this Section 5.10 shall survive the payment in full of principal and interest of and in respect of all Refunding and Consolidating Loans hereunder and termination of this Agreement.

SECTION 5.11. Joint and Several Liability. (a) Joint and Several Liability. The liability of NBY and each of the other Obligors to pay or to perform any obligations under this Agreement is agreed to be joint and several, so that NBY and each of the other Obligors shall be liable as principal debtor for all the obligations of all of the Obligors, and shall not be excused in whole or in part by the failure of any Obligor to pay or perform any obligation hereunder. If any obligation is or is to be performed by any one or more of the Obligors, such performance shall be the subject of an indemnity pursuant to paragraph (b) of this Section 5.11.

(b) Indemnity. Each Obligor hereby unconditionally and irrevocably agrees to pay to the Agent for the account of the Creditors from time to time on demand by the Agent an amount equal to and in the same currency as each amount due and payable by it or any other Obligor hereunder and hereby undertakes to indemnify the Agent and each of the Creditors from and against all actual liabilities, costs, losses and reasonably incurred expenses which the Agent and the Creditors or any of them may sustain or incur (i) as a result of any default by it or any other Obligor in the due performance of its obligations under this Agreement or (ii) as a result of any provision of this Agreement being or becoming void, voidable, unenforceable or ineffective for any reason whatsoever, whether or not known to any one or more of the parties hereto.

(c) <u>No Impairment of Obligations</u>. The obligations of each Obligor under this Agreement shall not be in any way discharged or impaired (i) by reason of any time or indulgence which may be granted by the Agent or the Creditors or any of them to any other person (including any other Obligor or the Guarantor) from whom they may seek payment of sums due from an Obligor under this Agreement, (ii) by any amendment or modification of this Agreement or the Guaranty or any related document, (iii) by any action or omission to take any action referred to in paragraph (e) of this Section 5.11 or (iv) by any other circumstance which might (but for this provision) constitute a legal or equitable discharge of such Obligor.

(d) <u>No Derogation of Other Rights</u>. Any rights conferred on the Agent and the Creditors by paragraph (b) of this Section 5.11 shall be in addition to and not in substitution for or derogation of any other right which the Agent or the Creditors or any of them might at any time have to seek from any other Obligor, the Guarantor or any other person for the payment of sums due from an Obligor or indemnification against liabilities incurred as a result of any Obligor's default in payment of or performance of any obligation under this Agreement.

(e) <u>No Requirement to Take Action</u>. Neither the Agent nor the Creditors shall be obliged before taking steps to enforce any rights conferred on them by this Section 5.11 or exercising any of the rights, powers and remedies conferred on them hereby or by law (i) to take action or obtain judgment in any court against any other Obligor, the Guarantor or any other person from whom they may seek payment of any sum due from an Obligor under this Agreement or the Guaranty, (ii) to make or file any claim in a bankruptcy, winding-up, liquidation or reorganization of any other Obligor or any other such person or (iii) to enforce or seek to enforce any other rights they may have against any other Obligor, the Guarantor or any other such person.

(f) <u>Paying Agent as Representative</u>. Each Obligor hereby unconditionally and irrevocably authorizes and empowers the Paying Agent to sign and deliver to the Agent, or to receive from the Agent, any notice required to be delivered or received by the Obligors and to take any other action required or desirable to be taken by the Obligors under this Agreement.

ARTICLE VI

EVIDENCE OF DEBT

SECTION 6.01. Control Accounts. The Agent shall maintain on its books of account a control account or accounts in which shall be recorded:

(a) the amount and currency of each Refunding and Consolidating Loan which shall be made by the Creditors pursuant to this Agreement; and

(b) the amount and currency of each repayment of the principal of, each payment of interest on, and each payment of any other amount related to, the Refunding and Consolidating Loans.

SECTION 6.02. Each Creditor's Accounts. (a) Establishment of Accounts. Each Creditor shall establish and maintain in accordance with its usual practice and on the books of account of its Lending Offices accounts evidencing the amount and currency of each Refunding and Consolidating Loan made by it pursuant to this Agreement as well as all payments received by it on account of principal thereof and interest thereon pursuant to this Agreement or the Guaranty. A certificate of a Creditor as to (i) the amount by which a sum payable hereunder is to be increased under Section 5.10 hereof or (ii) the amount for the time being required to indemnify against any such cost or liability as is mentioned in Sections 5.09 and 5.10 hereof shall be *prima facie* evidence of the existence and amounts of the obligations of the Obligors therein recorded.

(b) Accounts as Evidence. In any dispute, legal action or other proceeding whether judicial or otherwise, arising out of or in connection with this Agreement, the entries made in the accounts established and maintained by any Creditor pursuant to paragraph (a) of this Section 6.02 shall constitute *prima facie* evidence of the existence and amounts of the obligations of the Obligors recorded therein; and in the case of conflict between any such account and the control accounts maintained by the Agent pursuant to Section 6.01 hereof, the accounts of the relevant Creditor shall control, in the absence of manifest error.

ARTICLE VII

CONDITIONS PRECEDENT

SECTION 7.01. Condition Precedent to Execution of this Agreement. This Agreement shall not be executed and delivered by any of the Creditors or the Agent unless the following conditions precedent shall have been fulfilled on the date on which the Paying Agent shall have executed and delivered this Financing Agreement:

(a) Letter of Intent. The IMF and the Guarantor shall have executed and delivered a Letter of Intent contemplating the execution and delivery by each of them of a new Stand-by Arrangement for Yugoslavia providing for drawings by the Guarantor during 1984 in an aggregate principal amount at least equal to the principal payments due from the Guarantor during the period from January 1, 1984 to and including December 31, 1984 on account of drawings theretofore made by it from the IMF (such new Stand-by Arrangement being herein called the "1984 IMF Stand-by Arrangement").

(b) Payment of Arrears. There shall have been paid, or monies adequate for the payment thereof shall have been placed on deposit with the Agent in escrow pursuant to Section 14.16 hereof for the payment of, all amounts due and payable to each Creditor on account of any Arrears due and payable on or before the date on which the Paying Agent shall have executed and delivered this Agreement (except to the extent any such Arrear has arisen from technical difficulties in the ordinary course); provided, however, that this condition precedent shall be deemed fulfilled if payment has been made for, or monies have been so placed in escrow for the payment of, each such Arrear to which notice has been given to the Agent and the Paying Agent at least five Working Days prior to such date; and

(c) 1983 Event of Default. No 1983 Event of Default shall have occurred and be continuing; provided, however, that this condition precedent shall be deemed fulfilled if (i) the agent under the 1983 Financing Agreement and the Short-Term Facilities Agreement shall not have received a "Notice of Default" thereunder which has not been withdrawn describing a 1983 Event of Default which continues to be in existence as of the date on which the Paying Agent shall have executed and delivered this Agreement and (ii) no 1983 Event of Default shall have occurred and be continuing as a result of the non-payment when due of any principal of or interest on any "Advances" or "Refunding and Consolidating Loans" under the 1983 Financing Agreement or any "Extension Loans" under the Short-Term Facilities Agreement.

SECTION 7.02. Conditions Precedent to Effectiveness of this Agreement. This Agreement shall become effective and binding upon the Obligors, the Creditors and the Agent on and as of the date (the "Effective Date") when copies of this Agreement have been executed and delivered to the Agent in counterparts by each Obligor and the Paying Agent and by Creditors which have executed and delivered to the Agent fully completed Refunding and Consolidating Loan Notices with respect to Eligible Principal Payments in an aggregate principal amount outstanding of U.S.$____________ or its equivalent in other currencies as calculated by the Agent, using the following rates of exchange to U.S. Dollars:

Austrian Schillings:	19.935	Italian Lire:	1717.000
Belgian Francs:	57.640	Japanese Yen:	234.250
Canadian Dollars:	1.248	Kuwait Dinars:	0.295
Danish Kroner:	10.230	Pound Sterling:	0.714
Deutsche Mark:	2.820	Swedish Kroner:	8.195
Dutch Guilders:	3.175	Swiss Francs:	2.244
French Francs:	8.625		

and for any other currency, the applicable exchange rate of the Agent on the date of calculation provided that the following conditions shall have been fulfilled on such date:

(a) Guaranty. The Guaranty shall have been executed and delivered to the Agent by the Guarantor;

(b) Payment of Arrears. There shall have been paid, or monies adequate for the payment thereof shall have been placed on deposit with the Agent in escrow pursuant to Section 14.16 hereof for the payment of, all amounts due and payable to each Creditor on account of any Arrears due and payable on or before the date on which the Agent shall have executed and delivered this Agreement (except to the extent any such Arrear has arisen from technical difficulties in the ordinary course); provided, however, that this condition precedent shall be deemed fulfilled if payment has been made for, or monies have been so placed in escrow for the payment of, each such Arrear to which notice has been given to the Agent and the Paying Agent at least five Working Days prior to such date; and

(c) 1983 Event of Default. No 1983 Event of Default shall have occurred and be continuing; provided, however, that this condition precedent shall be deemed fulfilled if (i) the agent under the 1983 Financing Agreement and the Short-Term Facilities Agreement shall not have received a "Notice of Default" thereunder which has not been withdrawn describing a 1983 Event of Default which continues to be in existence as of the date on which the Agent shall have executed and delivered this Agreement and (ii) no 1983 Event of Default shall have occurred and be continuing as a result of the non-payment when due of any principal of or interest on any "Advances" or "Refunding and Consolidating Loans" under the 1983 Financing Agreement or any "Extension Loans" under the Short-Term Facilities Agreement.

Upon the occurrence of the Effective Date, the Agent shall promptly notify the Obligors, the Guarantor and the Creditors thereof.

SECTION 7.03. Conditions Precedent to the First Refunding and Consolidating Loans. The agreement of each Creditor to make each of its Refunding and Consolidating Loans under Article II hereof is subject to the fulfillment of the following conditions precedent on the First Refunding and Consolidating Loan Date:

(a) Payment of Fees, Costs and Expenses. The Obligors shall have paid, or monies adequate for the payment thereof shall have been placed on deposit with the Agent in escrow for the payment on the First Refunding and Consolidating Loan Date of, (i) all amounts then due and payable on account of the facility fees and agency fee hereunder and (ii) all costs and expenses payable or reimbursable by the Obligors under Section 14.05 hereof for which invoices or statements shall have been submitted to the Paying Agent on or before the date [30] days before the First Refunding and Consolidating Loan Date;

(b) Payment of Arrears. There shall have been paid, or monies adequate for the payment thereof shall have been placed on deposit with the Agent in escrow pursuant to Section 14.16 hereof for the payment of, all amounts due and payable to each Creditor on account of any Arrears due and payable on or before the First Refunding and Consolidating Loan Date (except to the extent that any such Arrear has arisen from technical difficulties in the ordinary course); provided, however, that this condition precedent shall be deemed fulfilled if (i) payment has been made for, or monies have been so placed in escrow for the payment of, each such Arrear to which notice has been given to the Agent and the Paying Agent at least five Working Days prior to the first Refunding and Consolidating Loan Date and (ii) the Agent shall have received a certificate, dated as of a date not more than five Working Days prior to the first Refunding and Consolidating Loan Date and executed and delivered on behalf of the Obligors by a duly authorized officer of the Paying Agent, to the effect that this condition precedent has been fulfilled.

(c) 1984 IMF Stand-by Arrangement Financing. The Agent shall have received a certificate, dated as of a date not more than 10 Working Days before the First Refunding and Consolidating Loan Date and executed and delivered on behalf of NBY by a duly authorized officer thereof, to the effect (i) that attached thereto are true copies of (A) the instruments and agreements evidencing and governing the 1984 IMF Stand-by Arrangement and (B) the decision of the Executive Board of the IMF at which there shall have been approved the 1984 IMF Stand-by Arrangement and (ii) that the Guarantor is eligible to use the resources of the IMF;

(d) Governmental Financings. The Agent shall have received:

(i) a certificate, dated as of a date not more than 10 Working Days before the First Refunding and Consolidating Loan Date and executed and delivered on behalf of the Federal Secretariat of Finance of the Guarantor by a duly authorized representative thereof, to the effect that attached thereto is a true copy of the [insert name or description of minute or agreement, or a document of the Berne Accord Coordinator summarizing such minute or agreement, adopted at the meeting of the Cooperating States to be held on March 24, 1984] (the "Geneva Accord") adopted by each of the Cooperating States and pursuant to which each of them has agreed to refinance, on terms and conditions providing that the first installment of principal thereof is not scheduled to be due and payable prior to 1988 and that the final installment of such principal is not scheduled to be due and payable prior to 1991, 100% of each payment of External Indebtedness of one or more Yugoslav Obligors which constitutes principal or its equivalent, which was outstanding at the close of business on December 2, 1982, which has become or shall become due during the period from January 1, 1984 to and including December 31, 1984 and which either is owing to such Cooperating State or constitutes an item of Government Guaranteed Debt in respect of which it is a surety, which certificate shall be in substantially the form of Exhibit E hereto; and

(ii) a letter or telex, dated as of a date before the First Refunding and Consolidating Loan Date, of the Berne Accord Coordinator stating that, to the best knowledge of the Berne Accord Coordinator, substantially all of the financings and refinancings set forth in the report provided by the Berne Accord Coordinator in connection with the "First Availability Date" under the 1983 Financing Agreement, to the extent that such financings and refinancings have not previously been consummated, have continued to be available to Yugoslavia in 1984, which letter or telex shall be in substantially the form of Exhibit F hereto;

(e) IBRD Loans. The Agent shall have received a letter or telex, dated as of a date not more than 10 Working Days before the First Refunding and Consolidating Loan Date and sent to the Agent on behalf of the IBRD by an appropriate officer thereof, to the effect that the aggregate amount of the structural adjustment loans and other facilities of the IBRD committed to be disbursed to Yugoslavia during the period from January 1, 1984 to and including December 31, 1984 is at least equal to the Principal Payments which have become or shall become due during such period and which are owing to the IBRD, which letter or telex shall be in substantially the form of Exhibit G hereto;

(f) Other Refinancing. The Agent shall have received a certificate, dated as of a date not more than 10 Working Days before the First Refunding and Consolidating Loan Date and executed and delivered on behalf of NBY by a duly authorized officer thereof, to the effect that (i) neither any Obligor, the Guarantor nor any Agency, nor, to the best knowledge of NBY, any other Original Borrower, has, during the period since the close of business on January 17, 1983, entered into any instrument or agreement providing for the payment, refinancing or extension of any Principal Payment on terms and conditions requiring the application of any International Monetary Assets or Exportable Assets of any Obligor, the Guarantor, any Agency or any Original Borrower, if the effect of such application would be to cause the provisions of paragraph (b) of Section 4.02 hereof to become applicable in accordance with the terms of paragraph (a) of said Section 4.02 and (ii) such provisions have not become applicable as the result of any such application on account of any Principal Payment, which certificate shall be in substantially the form of Exhibit H hereto;

(g) LHB Agreement. The Agent shall have received the LHB Agreement, executed and delivered by a duly authorized officer of LHB and acknowledged and agreed to by duly authorized officers of the Yugoslav shareholders of LHB;

(h) Registration Report of Concluded Credit Transaction. The Agent shall have received a copy, certified as of a date not more than 10 Working Days before the First Refunding and Consolidating Loan Date on behalf of NBY by a duly authorized officer thereof, of the registration of the report of concluded credit transaction in respect of the obligations of each Obligor (other than NBY) under this Agreement referred to in paragraph (j) of Section 9.01 hereof;

(i) Certificates as to Representations, No Default, Incumbency, etc. The Agent shall have received each of the following certificates, each of which shall be dated as of a date not more than 10 Working Days before the First Refunding and Consolidating Loan Date:

(i) a certificate, executed and delivered on behalf of NBY, as an Obligor and as the Paying Agent, by a duly authorized officer thereof, in substantially the form of Exhibit I hereto;

(ii) a certificate, executed and delivered on behalf of each Obligor other than NBY by a duly authorized officer thereof, in substantially the form of Exhibit J hereto; and

(iii) a certificate, executed and delivered on behalf of the Federal Secretariat of Finance of the Guarantor by a duly authorized representative thereof, in substantially the form of Exhibit K hereto;

(j) Process Agents. The Agent shall have received each of the following letters:

(i) a letter from each of the Obligors and the Paying Agent to the New York Process Agent in substantially the form of Exhibit L hereto, duly acknowledged by the New York Process Agent;

(ii) a letter from each of the Obligors and the Paying Agent to the London Process Agent in substantially the form of Exhibit M hereto, duly acknowledged by the London Process Agent;

(iii) a letter from the Guarantor to the Consul General of Yugoslavia in New York City, as the New York process agent under the Guaranty, in substantially the form of Exhibit N hereto, duly acknowledged by said Consul General;

(iv) a letter from the Guarantor to the Consul General of Yugoslavia in London, as the London process agent under the Guaranty, in substantially the form of Exhibit O hereto, duly acknowledged by said Consul General;

(v) a letter from the Guarantor to CT Corporation System, as the alternate New York process agent under the Guaranty, in substantially the form of Exhibit P hereto, duly acknowledged by CT Corporation System; and

(vi) a letter from the Guarantor to The Law Debenture Corporation p.l.c., as the alternate London process agent under the Guaranty, in substantially the form of Exhibit Q hereto, duly acknowledged by The Law Debenture Corporation p.l.c.;

(k) Legal Opinions. The Agent shall have received each of the following opinions, each of which shall be dated as of a date not more than 10 Working Days before the First Refunding and Consolidating Loan Date:

(i) an opinion of the senior legal adviser to NBY, in substantially the form of Exhibit R hereto;

(ii) an opinion of the senior legal officer of each Obligor other than NBY, in substantially the form of Exhibit S hereto;

(iii) an opinion of the senior legal adviser to the Federal Secretariat of Finance of the Guarantor, in substantially the form of Exhibit T hereto;

[(iv) an opinion of Messrs. Baker & McKenzie, special New York counsel to NBY and the Guarantor, in substantially the form of Exhibit U hereto;]

(v) an opinion of special Yugoslav counsel to the Agent and the Creditors, in substantially the form of Exhibit V hereto;

(vi) an opinion of Messrs. Coward Chance, special English counsel to the Agent and the Creditors, in substantially the form of Exhibit W hereto; and

(vii) an opinion of Messrs. Simpson Thacher & Bartlett, special New York counsel to the Agent and the Creditors, in substantially the form of Exhibit X hereto; and

(l) 1983 Event of Default. No 1983 Event of Default shall have occurred and be continuing; provided, however, that this condition precedent shall be deemed fulfilled if (i) the agent under the 1983 Financing Agreement and the Short-Term Facilities Agreement shall not have received a "Notice of Default" thereunder which has not been withdrawn describing a 1983 Event of Default which continues to be in existence as of the First Refunding and Consolidating Loan Date, (ii) no 1983 Event of Default shall have occurred and be continuing as a result of the non-payment when due of any principal of or interest on any "Advances" or "Refunding and Consolidating Loans" under the 1983 Financing Agreement or any "Extension Loans" under the Short-Term Facilities Agreement and (iii) the Agent shall have received a certificate, dated as of a date not more than five Working Days prior to the First Refunding and Consolidating Loan Date and executed and delivered on behalf of the Obligors by a duly authorized officer of the Paying Agent, to the effect that this condition precedent has been fulfilled.

SECTION 7.04. Copies of Documents. Each document (other than any telex) required to be delivered under Section 7.03 hereof shall be delivered in not fewer than three executed copies.

SECTION 7.05. Waivers of Conditions Precedent. With the prior consent of the Majority Creditors, the Agent may accept in fulfillment of any of the conditions precedent specified in Section 7.03 hereof a document not strictly complying with the terms thereof or may waive entirely the fulfillment of any such condition precedent, in either case upon such terms and conditions as may have been specified by the Majority Creditors, and if it does so, (a) such condition precedent shall thereafter be regarded as having been fulfilled and (b) the Obligors shall thereafter be deemed to be bound by any such terms and conditions to the same extent as though such terms and conditions had been set forth in this Agreement in full.

SECTION 7.06. Notice of Fulfillment of Conditions. As soon as practicable after the conditions precedent specified in Section 7.02 or 7.03 hereof shall have been fulfilled or waived, the Agent shall notify each of the Obligors, the Guarantor and the Creditors thereof, or, in the case of the conditions precedent specified in Section 7.03 hereof, if any of such conditions precedent shall have failed to be fulfilled on the First Refunding and Consolidating Loan Date, the Agent shall notify each of the Obligors, the Guarantor and the Creditors of the reasons therefor.

ARTICLE VIII

ORIGINAL GOVERNING AGREEMENTS

SECTION 8.01. Effectiveness of Original Governing Agreements. (a) Application of Original Governing Agreements. Except as otherwise provided in Sections 3.10 and 8.02 hereof and Article XI hereof or as otherwise expressly provided for herein, each Eligible Principal Payment shall continue to be governed by, and subject to, the Original Governing Agreement relating thereto until the Refunding and Consolidating Loan Date of such Eligible Principal Payment.

(b) Continuing Effectiveness, etc. Except as provided for herein with respect to Eligible Principal Payments thereunder and except for the limitation contained in paragraph (b) of Section 10.03 hereof on the exercise of any right of prepayment provided for therein, none of the terms, provisions or conditions of any Original Governing Agreement (including, without limitation, any such terms, provisions or conditions in the nature of covenants or events of default) shall be deemed modified by this Agreement, and each of such terms, provisions and conditions shall remain unchanged and in full force and effect irrespective of any voidness, avoidability or unenforceability thereof resulting from any act, omission or event taken or occurring before the date hereof or pursuant hereto (including, without limitation, any failure to satisfy any procedural or other requirements for obtaining payment under the terms of such Original Governing Agreement or under applicable law). If any Original Governing Agreement, or any obligation thereunder, is or becomes void, voidable or unenforceable as a result of any such act, omission or event, the Obligors jointly and severally agree to indemnify each Creditor party thereto against any loss incurred by such Creditor resulting therefrom.

SECTION 8.02. Limitation on Right of Acceleration. Each Creditor agrees that (except as may be necessary in the reasonable judgment of such Creditor for the preservation of rights) no default, event of default, right of acceleration or obligation to make a mandatory prepayment may be declared or exercised by it, or by any trustee or agent acting on its behalf by virtue of its having given or having omitted to give any consent or instructions, under any Original Governing Agreement or under any other agreement or instrument evidencing, governing or otherwise relating to any External Indebtedness owing to it solely by reason of a failure on the part of any Original Borrower to pay any Eligible Principal Payment on the payment date stated therefor.

SECTION 8.03. No Acceptance of Payments. (a) Eligible Principal Payments. Each Creditor hereby represents, warrants and agrees that:

(i) it has not sold, transferred or assigned, and will not sell, transfer or assign, in whole or in part, any Eligible Principal Payment held by it as at the close of business on January 17, 1983 (or on the Final Advance Date of such Eligible Principal Payment, if such Final Advance Date is later than January 17, 1983) other than to another Creditor or other person who has agreed, or will agree, to treat such Eligible Principal Payment for all purposes of this Agreement as though such other Creditor or person had held such Eligible Principal Payment as at such close of business; and

(ii) it has not taken, received or accepted, and will not take, receive or accept, directly or indirectly, any payment from any Original Borrower, in whole or in part, of principal (including any prepayment) of any Eligible Principal Payment held by it as at the close of business on January 17, 1983 (or on the Final Advance Date of such Eligible Principal Payment, if such Final Advance Date is later than January 17, 1983) other than any such payment provided for herein, unless such Creditor shall have made as of the First Refunding and Consolidating Loan Date a payment to the Original Borrower of such Eligible Principal Payment (or to an Obligor in the place of such Original Borrower) in the amount of such Eligible Principal Payment and in the currency thereof, with the intention of restoring to such Original Borrower (or such Obligor) such Eligible Principal Payment for all purposes of this Agreement (which intention and the satisfaction thereof shall be conclusively presumed from the execution and delivery by such Creditor of a Refunding and Consolidating Loan Notice with respect to such Eligible Principal Payment).

(b) Other Prepayments. Each Creditor hereby represents, warrants and agrees that it has not taken, received or accepted, and will not take, receive or accept, during the period from January 1, 1984 to December

31, 1984, directly or indirectly, any voluntary or optional prepayment, in whole or in part, of the principal of any External Indebtedness if such prepayment would cause (or would have caused if the Effective Date of this Agreement had been January 1, 1984) the Obligors to violate paragraph (b) of Section 10.03 hereof, unless such Creditor has made, or shall promptly make, a loan or advance in the amount of such prepayment to the Yugoslav Person who made such prepayment (or to any Obligor) the effect of which is to restore in all material respects such prepayment.

SECTION 8.04. Return or Notation of Eligible Principal Payment. Each Creditor agrees that, on or promptly following the Refunding and Consolidating Loan Date for each Eligible Principal Payment held by it, it will deliver to the Paying Agent or to the relevant fiscal or paying agent (and, in any event, withdraw from the processes of payment and from any commercial instruments market) any negotiable drafts, bills of exchange, notes, bonds or other instruments held by it and evidencing such Eligible Principal Payment to the extent that the same evidences such Eligible Principal Payment, and, if any such negotiable draft, bill of exchange, note, bond or other instrument evidences in addition to such Eligible Principal Payment any other outstanding indebtedness, it will, before selling, assigning or transferring the same, endorse thereon the substitution for such Eligible Principal Payment of the Refunding and Consolidating Loan made in respect thereof on such Refunding and Consolidating Loan Date.

ARTICLE IX

REPRESENTATIONS AND WARRANTIES

SECTION 9.01. Representations and Warranties of Each Obligor. In order to induce the Creditors and the Agent to enter into this Agreement and the Creditors to make the Refunding and Consolidating Loans contemplated hereby, the Obligors hereby jointly and severally represent and warrant to each of the Creditors and the Agent as follows (with references in this Section 9.01 to "Obligor" being deemed to include, in the case of NBY and wherever the context permits, NBY in its capacity as Paying Agent hereunder):

(a) Corporate Existence, etc. Each Obligor is a legally constituted corporate or other judicial entity, duly established and existing as such under the laws of Yugoslavia. NBY is the central bank, bank of issue and monetary authority of Yugoslavia;

(b) Authorization. The execution, delivery and performance by each Obligor of this Agreement and the Refunding and Consolidating Loan Notices contemplated hereby have been, or prior to the Effective Date will be, duly authorized by all necessary legislative, executive, administrative and other governmental and corporate (or comparable internal) action and do not contravene any provision of the charter, by-laws or other governing rules or documents of such Obligor, or any provision of any law, regulation, order or contractual restriction binding on or affecting such Obligor or any of its property;

(c) Required Approvals. All actions and conditions required to be taken, fulfilled or performed in order to enable each Obligor to execute, deliver and perform this Agreement and to make it admissible in evidence in the courts of Yugoslavia as a valid, legally binding and enforceable obligation of such Obligor have been taken, fulfilled or performed (as the case may be). No authorization or approval (including, without limitation, any exchange control approval) or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by any Obligor of this Agreement or any Refunding and Consolidating Loan Notice, except for any such authorization, approval, action, notice or filing which has been, or prior to the First Refunding and Consolidating Loan Date will be, duly obtained or made and which on the First Refunding and Consolidating Loan Date will be unconditional and in full force and effect;

(d) Legal Effect. This Agreement is the legal, valid and binding obligation of each Obligor, enforceable against such Obligor in accordance with its terms;

(e) Direct Obligation. This Agreement is the direct, unconditional and general obligation of each Obligor;

(f) Pari Passu Status. The obligations of each Obligor under this Agreement rank and will rank at least pari passu in priority of payment and in all other respects with all other unsecured claims on each Obligor (except wage, social security and similar claims not constituting External Indebtedness which have a priority under applicable law). There is no Lien upon or with respect to any of the properties (including, without limitation, any gold or other International Monetary Assets) or revenues of any Obligor, which secures, or otherwise provides for payment of, any External Indebtedness of any Obligor, except as permitted by paragraph (a) of Section 10.03 hereof;

(g) No Litigation. There is no pending or, to the best of the knowledge of any Obligor, threatened action or proceeding affecting any Obligor before any court, governmental agency or arbitrator which, by itself or in the aggregate with any other actions or proceedings, will adversely affect the ability of the Obligors to perform their obligations under this Agreement or which purports to affect the legality, validity or enforceability against any Obligor of this Agreement;

(h) No Immunities. Each Obligor is subject to civil and commercial law with respect to its obligations under this Agreement, and the execution, delivery and performance by each Obligor of this Agreement constitute commercial acts rather than public or governmental acts. Neither any Obligor nor any of its properties has any immunity (sovereign or otherwise) from jurisdiction of any Yugoslav court or from set-off or any legal process, whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution of judgment, arrest of property or otherwise, under the laws of Yugoslavia (other than immunity from execution in respect of its assets (if any) constituting (i) mines or ore in mines, (ii) means of collective consumption, including educational facilities and pension and social security funds, (iii) means and facilities for national defense and security and (iv) fixed assets of agricultural, forestry and scientific research enterprises indispensable to the conduct of the business thereof), and to the extent that any Obligor is entitled to any such immunity outside Yugoslavia, it has effectively and irrevocably waived such immunity to the fullest extent permitted by applicable law pursuant to paragraph (b) of Section 14.08 hereof;

(i) Taxes. There is no Applicable Tax, and no Other Applicable Tax, imposed by Yugoslavia or any political subdivision thereof or taxing authority therein, due or payable either on or by virtue of the execution or delivery by any Obligor, any Creditor or the Agent of this Agreement, any Refunding and Consolidating Loan Notice or any document to be furnished hereunder or on any payment to be made by any Obligor pursuant hereto or thereto, including, without limitation, payment of principal, interest, fees, commissions or expenses;

(j) Necessary Recordings. This Agreement is in proper legal form under Yugoslav law for the enforcement thereof against each Obligor under Yugoslav law. In order to ensure the legality, validity, enforceability or admissibility in evidence of this Agreement or any Refunding and Consolidating Loan Notice in any proceeding involving any Obligor in the courts of Yugoslavia, it is not necessary that any stamp or similar tax be paid on or in respect of this Agreement or such Refunding and Consolidating Loan Notice or that this Agreement or such Refunding and Consolidating Loan Notice or any other document be filed or recorded with any court or other authority in Yugoslavia, except for a registration of the report of concluded credit transaction in respect of the obligations of each Obligor (other than NBY) under this Agreement with [the national bank of the republic or autonomous province of Yugoslavia in which the principal office of such Obligor is located] , which registration will be duly made before the First Refunding and Consolidating Loan Date;

(k) Enforcement. In any proceeding taken in Yugoslavia in connection with, or for the enforcement against any Obligor of, this Agreement, effect will be given to the choice of the law of the State of New York as the governing law of this Agreement, and any final and conclusive judgment against any Obligor on or relating to this Agreement which is obtained in the courts of the State of New York, in the Federal courts of the United States of America sitting in New York City or in the High Court of Justice in England will be recognized and enforced in Yugoslavia, provided that (i) such judgment does not violate or contravene the basis of the social system determined by the Constitution of Yugoslavia, (ii) a Yugoslav court, or other agency of Yugoslavia, does not have exclusive jurisdiction, (iii) it was not impossible for such Obligor to participate in such proceedings due to irregularities therein (and not by virtue of any Yugoslav law, regulation or rule restricting the ability of such Obligor to participate therein) and, in particular, service of process relating to the proceedings giving rise to such judgment was received by or attempted to be made on such Obligor or its duly appointed agent or such Obligor entered in such proceedings, (iv) such judgment is final under the local law where rendered, (v) the courts of the jurisdiction rendering such judgment would enforce a Yugoslav judgment and (vi) in the same matter, a Yugoslav court, or other agency of Yugoslavia, did not render a final decision or, in the same matter, another foreign judgment was not recognized;

(l) Representations Made in Information Memorandum. To the best knowledge of each Obligor, each statement contained in the Information Memorandum, a copy of which has been furnished to each Creditor, is true and accurate in all material respects, and to the best knowledge of each Obligor, the Information Memorandum does not omit to state any material fact or any fact necessary to make the statements contained therein not misleading. Since the date of the Information Memorandum, there has been, to the best knowledge of each Obligor, no material adverse change in the financial condition or operations of any Obligor;

(m) Control of International Monetary Assets. Consistent with the foreign exchange laws and regulations of Yugoslavia as in effect on the date hereof and as in effect from time to time hereafter so long as any Refunding and Consolidating Loan remains outstanding in whole or in part: substantially all of the Foreign Currency of all Yugoslav Obligors and of citizens of Yugoslavia resident in Yugoslavia are held by, or subject to the disposition of, NBY and the other Obligors, subject to the rights of Yugoslavia with respect thereto; and, substantially all of the other International Monetary Assets of all Yugoslav Obligors and of such citizens are held by, or subject to the disposition of, NBY, subject to the rights of Yugoslavia with respect thereto. The Foreign Currency held by, or subject to the disposition of, the Obligors other than NBY is available, and to the extent required will be promptly remitted by such Obligors, to NBY for application by NBY in its capacity as Paying Agent to the obligations of the Obligors hereunder, and such availability and remittance shall be on terms consistent with the joint and several nature of the obligations of the Obligors hereunder and are in accordance with applicable Yugoslav banking laws and regulations. The International Monetary Assets held by, or subject to the disposition of, NBY are available to NBY for application by it in its capacity as Paying Agent to the obligations of the Obligors hereunder. Consistent with understandings with the IBRD as set forth in a letter from the Federal Secretary of Finance of Yugoslavia to the President of the IBRD and summarized (in relevant part) on Schedule 5 hereto, it is the intention of Yugoslavia to implement and maintain adequate monitoring and control systems to effectively support the policy of Yugoslavia to maximize the amount of the Foreign Currency owned by Yugoslav Persons (other than Yugoslav Obligors and citizens of Yugoslavia resident in Yugoslavia) that is placed on deposit with the Obligors, including effective repatriation, subject to any applicable non-Yugoslav laws and regulations and to the working capital requirements of such Yugoslav Persons. Each of NBY and the Obligors has the power, independently and under its own responsibility, to deal in, and authorize the transfer from Yugoslavia of, Foreign Currency and will undertake to use such power and all other legal measures available to it to facilitate the payment when due of all principal of and interest and other amounts due on the External Indebtedness owing by it to the Creditors; and

(n) Barter and Clearing Arrangements. The Government of Yugoslavia subscribes to the purposes of the IMF to assist in the establishment of a multilateral system of payments in respect of current transactions between countries and in the elimination of foreign exchange restrictions which hamper the growth of world trade. Therefore, Yugoslavia subscribes to the policy not to conclude bilateral payments agreements which are inconsistent with the Articles of Agreement of the IMF. On the basis of the foregoing, and where the existing bilateral payments agreements continue to exist, continuous Yugoslav economic policies are to avoid the creation of large and permanent surpluses on clearing accounts.

The representations and warranties contained in this Section 19.01 (other than in paragraphs (g) and (l) thereof) shall be deemed to be made, restated and confirmed by the Obligors jointly and severally on each Interest Payment Date.

SECTION 19.02. Representations, Warranties and Certain Agreements of each Creditor. Each Creditor hereby represents and warrants to, and agrees with, each of the other Creditors, each ICC Member (as hereinafter defined) and the Agent as follows:

(a) Independent Investigation by Each Creditor. Each Creditor is generally familiar with such matters (including, without limitation, the economic affairs and financial condition of each of the Obligors and the Guarantor) as in its opinion may affect the performance by each of the Obligors and the Guarantor of its obligations hereunder and has made its own independent evaluation of the economic affairs, financial condition, International Monetary Assets, Exportable Assets, prospective foreign exchange income, creditworthiness and legal status and nature of each of the Obligors and the Guarantor. Each Creditor will continue to be solely responsible for making its own independent appraisal of all such matters in the future and has not relied, and will not rely, on any other Creditor, the Agent or any ICC Member (i) to check or inquire on behalf of such Creditor into the adequacy, accuracy or completeness of any information provided by any of the Obligors and the Guarantor in connection herewith, whether or not such information has been or is hereafter distributed by any other Creditor, any ICC Member or the Agent, or (ii) to inform such Creditor concerning the results of any such appraisal, check or inquiry made by such other Creditor, any ICC Member or the Agent or any of their respective affiliates. Each Creditor acknowledges that such Creditor has received the Information Memorandum;

(b) Independent Appraisal of Each Creditor. In deciding whether or not to enter into this Agreement, each Creditor has relied upon its own independent evaluation of the matters referred to in paragraph (a) of this Section 19.02, and such Creditor is not relying upon (i) any representation or warranty, express or implied, made to it by any other Creditor, any ICC Member or the Agent with respect to the matters contemplated hereby or (ii) any oral or written communication made by any other Creditor, any ICC Member or the Agent;

(c) Refunding and Consolidating Loan Notices. Each Creditor has executed and delivered, or on or before February , 1985 will execute and deliver, for receipt by the Agent a completed Refunding and Consolidating Loan Notice in respect of each Eligible Principal Payment held by it as at the close of business on January 17, 1983 (or on the Final Advance Date of such Eligible Principal Payment, if such Final Advance Date is later than January 17, 1983), unless (i) such Creditor has sold, transferred or assigned such Eligible Principal Payment in whole to another Creditor or other person who has agreed, or on or before February , 1985 will agree, to treat such Eligible Principal Payment for all purposes of this Agreement as though such other Creditor or person had held such Eligible Principal Payment as at such close of business or (ii) such Creditor is a party hereto solely in connection with one or more Eligible Principal Payments held by it under syndicated loan arrangements;

(d) Completion of Eligible Principal Payments. Each Creditor will take all action (whether by demand under guarantees or otherwise) which may be necessary to ensure that all External Indebtedness owed to it capable of being an Eligible Principal Payment becomes an Eligible Principal Payment on or prior to December 31, 1984 (other than by accelerating any stated maturity date of such External Indebtedness pursuant to any event of default or similar provision in any instrument or agreement evidencing, governing or otherwise relating thereto); and

(e) Notice of Set-Off. Each Creditor will promptly notify the Agent after any set-off and application made pursuant to paragraph (a) of Section 14.06 hereof by such Creditor.

ARTICLE X

COVENANTS

SECTION 10.01. Information Covenants. (a) Reporting Requirements of Obligors. So long as any

Refunding and Consolidating Loan remains outstanding in whole or in part, each Obligor covenants and agrees to furnish to the Agent (in sufficient copies to permit the distribution thereof to the Creditors), within 180 days after the end of its fiscal year, its financial statements for such year (including, without limitation, a statement of condition as at the end of such year and a statement of earned surplus or deficit for such year), which financial statements, in each case, shall have been prepared on substantially the same basis as the financial statements of such Obligor most recently furnished to its lenders prior to the date hereof and shall be certified by a duly authorized officer of such Obligor as having been prepared in accordance with the law of, and accounting standards generally in effect in, Yugoslavia and as giving a true and fair representation of its financial condition as at the end of, and of its results for, the relevant fiscal year.

(b) Reporting Requirements of NBY. So long as any Refunding and Consolidating Loan remains outstanding in whole or in part, NBY covenants and agrees:

(i) to furnish or cause to be furnished to the Agent (in sufficient copies to permit the distribution thereof to the Creditors, but without duplication of any distribution under the Short-Term Facilities Agreement or the 1983 Financing Agreement):

(A) within 90 days after the end of each calendar year, a document prepared by, and certified by a duly authorized representative of, NBY, containing in respect to such calendar year the same kind of information and in similar detail and prepared on substantially the same basis as that contained in the Information Memorandum in respect of 1983; and

(B) within 60 days after each March 31, June 30, September 30 and December 31, an information statement certified by a duly authorized representative of NBY, for the quarter ending on such date and containing the information contemplated by Schedule 6 hereto; and

(ii) to furnish or cause to be furnished to the Agent (in at least one copy suitable for copying to permit the distribution of one copy to each Creditor which requests a copy pursuant to this subparagraph (ii), but without duplication of any distribution under the Short-Term Facilities Agreement or the 1983 Financing Agreement):

(A) within 30 days after the furnishing or receipt thereof (as the case may be), each financial report regarding Yugoslavia or any Agency which is prepared by the IMF or the IBRD and made available to NBY, the Guarantor or any other Agency and which is relevant to any facilities maintained or granted (or to be granted) by the IMF or the IBRD to Yugoslavia and each report furnished to the IMF by the Guarantor with respect to compliance by it with the IMF Stand-by Arrangement;

(B) within 30 days of the consummation of any arrangement with the IMF or the IBRD for the extension of credit to Yugoslavia or any Agency, a summary of such arrangement, including, without limitation, details of the amounts and forms in which, and the dates at which, such credit is to be made available and the terms upon which such credit is to be paid or discharged (which summary, in the case of any such arrangement with the IBRD, may take the form of a copy of the President's Report with respect thereto);

(C) within 30 days after the execution and delivery of an agreement constituting a [Geneva Arrangement] , a copy thereof;

(D) within 30 days after NBY obtains knowledge of the execution and delivery of any agreement or instrument which relates to the refinancing, extension or payment of any Principal Payment subject to the provisions of Section 4.02 hereof, a summary of the terms of such agreement or instrument, including, without limitation, details of the amount, currency and form of such Principal Payment, the person to whom such Principal Payment is owed and the financial terms on which such Principal Payment is to be maintained and paid or discharged (including the fees and interest rate to be payable in respect of such Principal Payment and the principal installment dates and amounts) (and, in connection with this subparagraph (D), NBY hereby agrees that it has taken, and will take, all reasonable steps necessary or useful to assure that it receives prompt notice of the execution and delivery of any such agreement or instrument);

(E) promptly after the preparation thereof, any quarterly economic bulletin of Yugoslavia (English edition) published by or on behalf of NBY; and

(F) within 60 days after the adoption or promulgation thereof, a copy of any national economic or similar plan for Yugoslavia.

(c) Notice Requirements. So long as any Refunding and Consolidating Loan remains outstanding in whole or in part, each Obligor covenants and agrees to furnish to the Agent (in such copies as may be reasonably requested by the Agent without duplication of any request under the Short-Term Facilities Agreement or the 1983 Financing Agreement):

(i) upon the occurrence of (A) any Event of Default, or any event or condition which, with the giving of notice or the lapse of time or both or the fulfillment of any other requirement, would constitute an Event of Default, or (B) any application of any of the International Monetary Assets or Exportable Assets to the satisfaction (in whole or in part) of any Principal Payment which has the effect of causing the provisions of paragraph (b) of Section 4.02 hereof to become applicable in accordance with the terms of paragraph (a) of said Section 4.02, notice of such Event of Default, such event or condition or such application (as the case may be) and of any action taken or proposed to be taken by any Obligor with respect thereto;

(ii) upon the commencement of, or the occurrence of any material change in the status of, any proceeding involving any Obligor, the Guarantor or any Agency or, to the best knowledge of such Obligor, any Original Borrower for the collection of, or challenging the legality, validity, binding effect or enforceability of, any agreement or instrument evidencing, governing or otherwise relating to any material External Indebtedness (including, without limitation, any Principal Payment), notice of such commencement or such material change, in reasonable detail; and

(iii) such further information and reports regarding the economic affairs, financial condition, International Monetary Assets, Exportable Assets, barter arrangements, clearing arrangements or legal status and nature of any Obligor or the Guarantor, as the Agent may from time to time reasonably request.

(d) Review of Reports. NBY agrees that at approximately six-month intervals, but no less often than once annually, its authorized and appropriate representatives will meet with representatives of the Creditors that are serving as members of the economics sub-committee referred to in paragraph (i) of Section 13.02 hereof. NBY agrees to arrange or cause to be arranged meetings with such authorized and appropriate representatives of such appropriate institutions or organizations within Yugoslavia as the said representatives of the Creditors reasonably request. The purpose of each such meeting will be to review in detail the then current information statement delivered pursuant to subparagraph (i) of paragraph (b) of this Section 10.01 and any such other data or information relating to Yugoslav economic performance, balance of payments, foreign debt, economic policy and reforms, and the operation of the foreign exchange system as may be reasonably requested. NBY also agrees that it will use its best efforts to arrange for the said representatives of the Creditors to contact representatives of such economic institutions or organizations as the said representatives shall, upon reasonable notice, request to contact. At the end of each set of meetings arranged pursuant to this paragraph (d), said representatives of the Creditors shall prepare a summary transcript thereof and forward a copy to the Agent for distribution to the Creditors. If any report regarding any set of such meetings is prepared by said representatives of the Creditors and such report is obtained by any Creditor (upon its request or otherwise), such Creditor hereby agrees that, notwithstanding its review of such report, such Creditor will continue to be solely responsible for making its own independent evaluation of all matters contained therein as provided in paragraph (a) of Section 19.02 hereof. The agreements of NBY in this paragraph (d) shall, so long as paragraph (d) of Section 11.01 of the 1983 Financing Agreement is in effect and is substantially identical to this paragraph (d) (but for the presence of this sentence), be deemed observed and performed to the extent that NBY observes and performs its agreements under paragraph (d) of said Section 11.01.

SECTION 10.02. Affirmative Covenants of the Obligors. So long as any Refunding and Consolidating Loan remains outstanding in whole or in part, the Obligors jointly and severally covenant and agree that each Obligor (with such reference to "Obligor" being deemed to include, in the case of NBY and to the extent that the context in this Section 10.02 permits, NBY in its capacity as the Paying Agent hereunder) will:

(a) Compliance with Law. Comply in all material respects with all applicable laws, regulations and orders, such compliance to include, without limitation, paying when due all taxes, assessments and governmental charges imposed upon it or its property, except to the extent contested in good faith;

(b) Maintenance of Approvals. Duly obtain and maintain in full force and effect all governmental approvals (including any exchange control approvals) required under the laws of Yugoslavia for the execution, delivery and performance by such Obligor of this Agreement or for the validity, legality or enforceability hereof and duly take all necessary and appropriate governmental and administrative action in Yugoslavia in order to make all payments to be made hereunder as required by this Agreement;

(c) Maintenance of Pari Passu Status. Ensure that at all times the claims of the Creditors and the Agent against such Obligor under this Agreement rank at least pari passu in priority of payment and in all other respects with all other unsecured External Indebtedness of such Obligor;

(d) Planning of Resources. Include in any projections or other planning aid that it may prepare for each calendar year in respect of its Foreign Currency resources, receipts and uses amounts sufficient to permit the payment by it, together with the other Obligors, of the principal of and interest on the Refunding and Consolidating Loans and all other amounts payable by the Obligors hereunder during such calendar year in accordance with the terms hereof;

(e) Payment of Arrears. Pay when due any amount owing by such Obligor to any Creditor which, if not so paid, would become an Arrear and use its best efforts to ensure that each other Yugoslav Obligor shall pay when due any such amount owing by such other Yugoslav

Obligor to any Creditor (including any such Arrear in the nature of an A Forfait Deduction which is due and payable on the maturity date of the related A Forfait Transaction);

(f) Consummation of Geneva Arrangements. Use its best efforts to consummate with each of the Cooperating States a Geneva Arrangement complying with the requirements of the Geneva Accord (and, in any event, not make any payment on account of the principal of any External Indebtedness subject to the Geneva Accord prior to the execution and delivery of a Geneva Arrangement covering such External Indebtedness); and

(g) Use of IBRD Facilities. Use its best efforts to obtain from the IBRD the maximum loan and credit facilities that could be available to Yugoslavia under arrangements with the IBRD (other than any such arrangements requiring that the proceeds made available thereunder be used in designated capital projects).

SECTION 10.03. Negative Covenants of the Obligors. So long as any Refunding and Consolidating Loan remains outstanding in whole or in part, the Obligors jointly and severally covenant and agree that no one of them will, and that each of them will use its best efforts to ensure that no other Yugoslav Obligor or any corporation or other business entity (whether Yugoslav or non-Yugoslav) owned or controlled by a Yugoslav Obligor will:

(a) Negative Pledge. Create, incur, assume or permit to exist any Lien upon or with respect to any of its existing or future properties (including, without limitation, International Monetary Assets) or revenues, in each case to secure or provide for the payment of External Indebtedness or upon or with respect to its International Monetary Assets, other than:

(i) Liens upon any tangible personal or real property acquired or held to secure the purchase price of such tangible personal or real property or to secure External Indebtedness incurred solely for the purpose of financing the substantially contemporaneous acquisition of such tangible personal or real property;

(ii) Liens existing on tangible personal or real property at the time of its acquisition;

(iii) Liens on any real or tangible personal property hereafter acquired, constructed or improved in connection with any public utility, industrial or natural resource project, created or assumed contemporaneously with, or within 120 days after, such acquisition or completion of such construction or improvement, to secure External Indebtedness incurred to provide for the payment of any part of the purchase price or the cost of such construction or improvement, provided that the lenders in respect of such External Indebtedness (A) have expressly agreed to look to such project and the revenues to be generated by its operation or the loss of or damage to such project as the principal sources of repayment for such External Indebtedness and (B) have been provided with a feasibility study prepared in good faith on the basis of adequate information by competent independent experts indicating that such project would generate sufficient International Monetary Assets to repay the principal of and interest on such External Indebtedness;

(iv) Liens constituting the renewal or extension of any Lien permitted by subparagraphs (i), (ii) and (iii) of this paragraph (a) solely with respect to the property theretofore subject to such Lien, provided that the principal amount of the External Indebtedness secured thereby shall not be increased except to the extent of capitalized interest thereon;

(v) Liens existing on January 17, 1983;

(vi) Liens arising exclusively by operation of the law of any jurisdiction other than Yugoslavia;

(vii) Liens arising in connection with contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals, provided that such Liens apply only to such precious metals and to the proceeds thereof, and Liens securing bid and performance bonds necessary for the conduct of, and obtained in the ordinary course of, business;

(viii) Liens which arise in the ordinary course of customary and regular trade transactions (including the financing thereof) on Foreign Currency or on the goods financed by any such transaction or the proceeds thereof or the documents of title relating thereto or claims which would arise in the event of loss or damage to such goods, provided that the indebtedness related thereto shall have a maturity of less than one year from the date on which the same was incurred, and provided, further, that the amount of such indebtedness is not less than the value of the collateral security for the payment thereof; and

(ix) Liens created by an Obligor (other than NBY) which arise in the ordinary course of transacting its banking business, which are considered normal banking transactions, which do not secure External Indebtedness, which are not over International Monetary Assets and which do not represent a departure from the manner in which the business of such Obligor was conducted prior to the date of this Agreement.

In construing this paragraph (a) the following types of arrangements shall be deemed to create Liens:

(x) counterpart deposit arrangements created after the date hereof pursuant to an agreement, express or implied, under which deposits having a simultaneous maturity with, and being substantially in the same amount as, the indebtedness owed are placed with or for the benefit of a creditor;

(y) sales with recourse of accounts receivable or other rights to receive money and purchases under conditional sale agreements; and

(z) advance payment arrangements or agreements which constitute an agreement or arrangement (other than a barter arrangement or clearing arrangement) entered into otherwise than in the ordinary course of business and under which the creditor to whom the relevant indebtedness is owed acquires rights to satisfy such indebtedness or any part thereof with or by application of any particular assets or revenues; or

(b) Purchase, Prepayment, etc. of External Indebtedness. Purchase, make any voluntary or optional prepayment on account of, or provide for the retirement or defeasance prior to the stated maturity of, any External Indebtedness of any Yugoslav Obligor [(other than [(i)] the "Advances", the "Refunding and Consolidating Loans" and any other External Indebtedness which is subject to the Short-Term Facilities Agreement or the 1983 Financing Agreement or which is made available under any agreement or instrument permitting the Yugoslav Obligor party thereto to resell or reborrow, or otherwise to reuse, the advances, loans or other extensions of credit being purchased, prepaid, retired or deferred, subject only to such conditions as such Yugoslav Obligor in good faith determines can be anticipated to be fulfilled [or (ii) any other External Indebtedness incurred on or after January 18, 1983 otherwise than (A) for the purpose, directly or indirectly, subject to clause (i) of this paragraph (b), of replacing, discharging or refinancing (in whole or in part) a debt which was incurred before January 18, 1983 or (B) pursuant to a written commitment in effect as at the close of business on January 17, 1983])] .

ARTICLE XI

INTERIM GUARANTY

SECTION 11.01. Guaranty. The Obligors hereby unconditionally and irrevocably guarantee (as primary obligors and not merely as sureties) the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of each Yugoslav Obligor in respect of each Eligible Principal Payment constituting Incorporated Debt from and after the later of the Effective Date or the date on which the Agent receives the Refunding and Consolidating Loan Notice related thereto (such obligations being herein called the "Guaranteed Obligations"), provided that the guaranty in this Article XI in respect of such Eligible Principal Payment shall be deemed satisfied by the making of, and the acceptance by the Obligors of, a Refunding and Consolidating Loan in respect of such Eligible Principal Payment.

SECTION 11.02. Terms of Guaranty. The Obligors guarantee that the Guaranteed Obligations will be paid or discharged in accordance with the terms of the relevant

Original Governing Agreements, except as expressly contemplated hereby, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Agent or the Creditors with respect thereto. The liability of the Obligors under the provisions of this Article XI shall be absolute, irrevocable and unconditional irrespective of:

(a) any lack of validity or enforceability of such Original Governing Agreements or any other agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Guaranteed Obligations, or any other amendment or waiver of, or any consent to departure from, such Original Governing Agreements;

(c) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of, or consent to departure from, any other guaranty, for all or any part of the Guaranteed Obligations;

(d) any change in the nature, condition, status or function of any Yugoslav Obligor; or

(e) any other circumstance (other than payment in full) which might otherwise constitute a defense available to, or a discharge of, any Yugoslav Obligor in respect of the Guaranteed Obligations or of any Obligor in respect of the provisions of this Article XI.

The provisions of this Article XI shall continue to be effective or be reinstated (as the case may be) if at any time any payment of any of the Guaranteed Obligations is rescinded or must otherwise be returned by any Creditor for any reason, all as though such payment had not been made.

SECTION 11.03. Further Terms of Guaranty. Each of the Obligors hereby waives promptness, diligence, presentment, demand, notice of acceptance and any other notice with respect to any of the Guaranteed Obligations and any requirement that any Creditor protect, secure, perfect or insure any security interest or lien or any property subject thereto or exhaust any right or take any action against any Yugoslav Obligor or any other person or any collateral.

SECTION 11.04. Continuing Guaranty. The provisions of this Article XI constitute a continuing guaranty of payment and shall remain in full force and effect until payment or discharge in full of the Guaranteed Obligations.

ARTICLE XII

EVENTS OF DEFAULT

SECTION 12.01. Events of Default. If any of the following events (the "Events of Default") shall occur and be continuing:

(a) any Obligor shall fail to pay any amount of principal of or interest on any Refunding and Consolidating Loan when due, or fails to pay any other sum payable by it hereunder from time to time within five Working Days after demand for payment shall have been made; or

(b) any representation, warranty or certification made or deemed made by any Obligor, the Paying Agent or the Guarantor (or any of their respective officers or officials) under or in connection with this Agreement or the Guaranty (including without limitation, in any notice, certificate, statement or other document delivered by it pursuant hereto or thereto, except for any preliminary notice, statement or other document delivered in connection with the process of reconciling the amount or terms of any Eligible Principal Payment, Arrears or Interest Adjustment Amount) shall prove to have been misleading in any material respect when made; or

(c) any Obligor or the Guarantor shall fail to perform or observe any of the covenants contained in Section 10.03 hereof or in Section 3 of the Guaranty (and, in the case of any failure of any Obligor to use its best efforts as required by Section 10.03 hereof with respect to any corporation or other business entity which is owned or controlled by a Yugoslav Obligor but which is not a Yugoslav Obligor, such failure shall remain unremedied for 15 days after written notice thereof shall have been given to the Paying Agent by the Agent or any Creditor); or

(d) any Obligor or the Guarantor shall fail to perform or observe any term, covenant or agreement contained in this Agreement or the Guaranty on its part to be performed or observed (other than any subject to paragraphs (a), (b) and (c) of this Section 12.01) and any such failure shall remain unremedied for 30 days after written notice thereof shall have been given to the Paying Agent or the Guarantor by the Agent or any Creditor; or

(e) on or after the Effective Date any Obligor or the Guarantor shall fail to pay any External Indebtedness owing to any Creditor (other than the Refunding and Consolidating Loans, which are subject to the provisions of paragraph (a) of this Section 12.01, and other than any Principal Payment or Excluded Debt owing to such Creditor) or any interest or premium thereon, within 15 Working Days after the date when due (whether at scheduled maturity or by required prepayment, acceleration, demand or otherwise), unless such External Indebtedness is due solely by virtue of an acceleration or obligation to make a mandatory prepayment which has been declared or exercised in contravention of Section 8.02 hereof or which is permitted thereby in order to enable a Creditor to preserve its rights; or, on or after the Effective Date any other default under any agreement or instrument evidencing, governing or otherwise relating to any such External Indebtedness owing to a Creditor, or any other event constituting an event of default under such agreement or instrument, shall occur and shall continue unremedied for 15 Working Days after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such External Indebtedness; or, due to any such other default under any such agreement or instrument, any such External Indebtedness owing to a Creditor shall on or after the Effective Date be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof; or

(f) any one or more creditors of any Obligor or the Guarantor shall take, or in the opinion of the Majority Creditors are likely to take, action to seize, attach or sequester, or to set off or apply against, any part of the present or future assets (including, without limitation, International Monetary Assets or

Exportable Assets) or revenues of such Obligor or the Guarantor (as the case may be), in order to satisfy or discharge, or to secure, External Indebtedness of such Obligor or the Guarantor (as the case may be) in an aggregate principal amount outstanding in excess of U.S.$10,000,000 (or its equivalent in one or more other currencies), unless (i) such action has been effectively stayed by the posting of a bond or by other appropriate legal measures or (ii) either (A) the Majority Creditors have given their consent to such action or (B) the Majority Creditors have failed to waive the provisions of Section 4.02 hereof, Section 5.02 of the Short-Term Facilities Agreement or Section 5.02 of the 1983 Financing Agreement with respect to the payment of such External Indebtedness and such payment would cause the provisions of Section 4.02 hereof or Section 5.02 of the Short-Term Facilities Agreement or Section 5.02 of the 1983 Financing Agreement (as the case may be) to become applicable in accordance with the terms thereof; or

(g) NBY shall generally not pay its External Indebtedness as it becomes due on or after the Effective Date; or, any Obligor other than NBY shall generally not pay its External Indebtedness as it becomes due on or after the Effective Date, unless such External Indebtedness has been appropriately assumed and is being paid by another person; or, any Obligor shall admit in writing its inability to pay its External Indebtedness generally on or after the Effective Date; or, the Guarantor shall admit in writing its inability to pay its External Indebtedness generally; or, any Obligor or the Guarantor shall, at any time, declare a moratorium on the payment of its External Indebtedness; or

(h) if, in the good faith judgment of the Majority Creditors, as a result of events which have occurred after the date hereof, an extraordinary situation shall have arisen which shall make it improbable that the Obligors or the Guarantor will be able to perform their obligations under this Agreement and the Guaranty; or

(i) the validity of this Agreement or the Guaranty or any material provision hereof or thereof shall be contested by any Obligor or the Guarantor (or by any legislative, executive or judicial body thereof), or any Obligor or the Guarantor shall deny liability hereunder or thereunder (whether by a repudiation or general suspension of payments hereunder or otherwise), or any Yugoslav treaty, law, regulation, decree, ordinance or official policy shall purport to render any material provision of this Agreement or the Guaranty void, invalid or unenforceable or shall purport to prevent or materially delay the performance or observance by any Obligor or the Guarantor of its obligations hereunder or thereunder; or

(j) any governmental authorization or approval necessary to enable any Obligor or the Guarantor to comply with, or to perform, any of its obligations under this Agreement or the Guaranty shall be revoked, withdrawn or withheld or shall otherwise fail to be issued or to remain in full force and effect; or

(k) Yugoslavia shall cease to be a member, or eligible to use the general resources, special drawing rights and other facilities of, the IMF; or, its right to use the general resources, special drawing rights and other facilities of the IMF is limited pursuant to the rules and regulations of the IMF; or, the right of Yugoslavia to use any IMF Stand-by Arrangement shall be limited or suspended; or

(l) Yugoslavia shall for any reason fail to make [use of all of the drawings made available to it under the 1984 IMF Stand-by Arrangement before April , 1985]; or

(m) Yugoslavia shall cease to be a member of, or shall be suspended from membership in, the IBRD, and the Majority Creditors shall determine in their sole discretion that such cessation or suspension shall constitute an Event of Default; or, Yugoslavia shall cease to be able to make drawings contemplated in respect of the structural adjustment loans referred to in paragraph (e) Section 7.03 hereof; or

(n) any Obligor or Yugoslavia shall breach any of its representations or agreements contained in any Berne Arrangement or Geneva Arrangement to which it is a party if the effect of such breach is (i) to terminate, or to permit the relevant Cooperating State to terminate, any agreement or obligation in such Berne Arrangement or Geneva Arrangement to provide financing or refinancing for Yugoslavia or (ii) to accelerate, or to permit such Cooperating State to accelerate, any financing or refinancing for Yugoslavia outstanding thereunder; or

(o) NBY shall not at any time be the bank of issue, central bank or monetary authority of Yugoslavia; or

(p) any steps are taken for the merger, consolidation or amalgamation of any Obligor, or for the sale or other transfer of all or substantially all of the assets of any Obligor or for the division or dissolution of any Obligor, or any event occurs under Yugoslav law which has an equivalent effect, except for the merger, consolidation or amalgamation of any Obligor with or into, or for the sale or other transfer of all or substantially all of the assets of any Obligor to, another Obligor or another person who (unless such other person shall not be the resulting entity) shall have expressly assumed the liabilities, duties and obligations of such Obligor hereunder pursuant to a supplement to this Agreement in substantially the form of Exhibit Y hereto; or, any Obligor ceases in any material respect to carry on the business and functions it carries on on the date hereof or materially changes the nature of its business or functions; or

(q) any writ, execution, attachment or similar process is levied against any substantial portion of the assets of any Obligor or the Guarantor (other than any such assets denominated in Yugoslav Dinars, unless Yugoslav Dinars become freely convertible into U.S. Dollars) in connection with any judgment against it, and such writ, execution, attachment or other process is not released, bonded, satisfied, discharged, vacated or stayed within 30 days, unless such judgment (i) relates to the non-payment of any External Indebtedness the payment of which would cause the provisions of Section 4.02 hereof, or Section 5.02 of the Short-Term Facilities Agreement or Section 5.02 of the 1983 Financing Agreement to become applicable in accordance with the terms thereof or (ii) is obtained in connection with an acceleration or obligation to make a mandatory prepayment on account of External Indebtedness of such Obligor or the Guarantor (as the case may be) which has been declared or exercised in contravention of Section 8.02 hereof or which is permitted thereby in order to enable a Creditor to preserve its rights; or

(r) as at February , 1985, any Yugoslav Obligor shall have failed to agree with a Creditor following reconciliation by the Administrative Coordinator upon the details of any Refinancing and Consolidating Loan Notice in respect of an Eligible Principal Payment and/or to execute the same, unless such failure results from a bona fide dispute which cannot be resolved by the Administrative Coordinator; or

(s) the Guaranty or the guaranty provided for in Article XI hereof shall cease to be in full force and effect; or

(t) a 1983 Event of Default shall occur and be continuing,

then, and in any such event, the Agent shall at the request, or may with the consent, of the Majority Creditors, by notice to the Paying Agent and the Guarantor, do any one or more of the following: (x) declare the Commitment of each Creditor to be terminated, whereupon the same shall forthwith terminate, (y) declare the Refunding and Consolidating Loans outstanding and to be outstanding to be due and payable on demand of the Agent at the request, or with the consent, of the Majority Creditors, whereupon such Refunding and Consolidating Loans, all interest accrued and unpaid thereon and all other amounts payable hereunder shall become and be due and payable on such demand, and (z) declare the Refunding and Consolidating Loans outstanding and to be outstanding to be forthwith due and payable, whereupon such Refunding and Consolidating Loans, all interest accrued and unpaid thereon and all other amounts payable hereunder shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by each of the Obligors.

In the event that the Agent shall make a declaration pursuant to clause (y) above, then, at any time thereafter, the Agent shall at the request, or may with the consent, of the Majority Creditors, (i) demand repayment of the Refunding and Consolidating Loans whereupon the same shall be immediately due and payable (or otherwise due and payable on the date specified by the Agent in such demand) together with all interest accrued and unpaid thereon and all other amounts payable by the Obligors and any of them hereunder or (ii) withdraw any such declaration whereupon such declaration shall cease to have effect.

SECTION 12.02. Transmittal of Notices of Default. If the Agent receives a Notice of Default from any Creditor, it shall promptly notify each other Creditor and the Paying Agent and the Guarantor of the contents thereof.

ARTICLE XIII

THE AGENT AND THE ICC MEMBERS

SECTION 13.01. Limited Appointment and Responsibilities. Each Creditor hereby appoints and authorizes the Agent to act as its agent under and in connection with this Agreement and the Guaranty. The Agent shall perform the mechanical and clerical functions in connection with the administration of this Agreement which are specifically set forth herein for the Agent, and in connection therewith shall have such powers as are reasonably incidental thereto. The responsibilities of the Agent are strictly limited to those specifically set forth in this Agreement, and no unstated functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Agent. Nothing herein shall constitute the Agent as an agent, trustee or fiduciary for any Obligor, the Guarantor or any Creditor, except as otherwise expressly provided in this Agreement. The Agent may perform all of its duties hereunder by or through agents, or its officers, employees or designees.

SECTION 13.02. Discretion and Protection. (a) No Duty to Exercise Discretion. As to any matters not expressly set forth herein as a function, responsibility or discretionary power of the Agent, the Agent shall not be required to exercise any discretion or take any action, except that the Agent may, in its sole discretion, act or refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Requisite Creditors, and such instructions shall be binding upon the Agent and all Creditors. If, with respect to proposed action to be taken by it, the Agent shall determine in good faith that the provisions of this Agreement relating to the functions, responsibilities or discretionary powers of the Agent are or may be ambiguous or inconsistent, the Agent may so notify the appropriate parties hereto (identifying the proposed action and the provisions that it considers are or may be ambiguous or inconsistent) and may decline either to perform such function or responsibility or to exercise such discretionary power unless it has received the written confirmation of the Requisite Creditors that the Requisite Creditors concur that the action proposed to be taken by the Agent is consistent with the terms of this Agreement or is otherwise appropriate. The Agent shall be fully protected in acting or refraining from acting upon the confirmation of the Requisite Creditors in this respect, and such confirmation shall be binding upon the Agent and Creditors. For the purposes of this Agreement, the term "<u>Requisite Creditors</u>" shall mean:

(i) in respect of matters affecting all Creditors, the Majority Creditors; and

(ii) in respect of matters affecting only a class of Creditors (as defined by a currency in which Refunding and Consolidating Loans may be outstanding, Interest Rate, or both, or other relevant criteria applicable to a class), Creditors of such class (A) at any time during the period before February 18, 1985, having more than 66-2/3% in aggregate principal amount for such class of the Refunding and Consolidating Loans outstanding and the Eligible Principal Payments then constituting Incorporated Debt and (B) at any time thereafter, having more than 66-2/3% in aggregate principal amount for such class of the Refunding and Consolidating Loans outstanding.

Nothing in this paragraph (a) shall be construed to permit any additional obligation to be imposed upon any Creditor or to alter the requirements of Section 14.01 hereof with respect to amendments or waivers of this Agreement.

(b) <u>No Requirement to Take Certain Actions</u>. The Agent shall not in any event be required to take any action which, in the judgment of the Agent, is contrary to this Agreement or applicable law or exposes the Agent to personal liability.

(c) <u>Exercise of Discretion Not an Undertaking to Do So Again</u>. If, in one or more instances, the Agent takes any action or assumes any responsibility not specifically delegated to it pursuant to the provisions hereof, neither the taking of such action nor the assumption of such responsibility shall be deemed to be an express or implied undertaking on the part of the Agent that it will take the same or similar action, or assume the same or similar responsibility, in any other instance.

(d) Reliance on Documents. Neither the Agent nor any ICC Member (as hereinafter defined) shall be responsible to any Creditor for any recitals, statements, representations, warranties or any other information contained in this Agreement, the Information Memorandum or any document delivered in connection herewith or therewith. The Agent shall have no responsibility to verify the accuracy or completeness of any information contained in any notice or certificate or other communication received by the Agent from any person. The Agent shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telegram, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties or by acting upon any representation or warranty of any Obligor or the Guarantor made in this Agreement, the Guaranty, any Refunding and Consolidating Loan Notice or in any document delivered pursuant to the provisions hereof. To the extent that the Agent is required by any provision hereof to take any action or prepare any report in reliance upon any information, report or document to be furnished by any other party hereto, the failure of any such other party to furnish such information, report or document shall excuse the Agent from taking such action or preparing such required report, provided that the Agent may, in its discretion (but only to the extent not inconsistent with the other provisions hereof), partially take such required action or partially prepare such required report on the basis of the information, reports or documents furnished to it.

(e) Reliance on Counsel. The Agent may consult with counsel (including counsel for any Obligor or the Guarantor) and other professional experts and consultants selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, experts or consultants.

(f) No Duty to Inquire. The Agent shall have no duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement or the Guaranty on the part of any Obligor or the Guarantor.

(g) No Responsibility for Validity of Documents. The Agent shall not be responsible to any Creditor for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, the

Guaranty, any Refunding and Consolidating Loan Notice or any other instrument or document furnished pursuant hereto.

(h) No Duty to Initiate Suits. The Agent shall not, in any event, (i) be required to initiate any suit, action or proceeding arising out of or in connection with this Agreement or the Guaranty or (ii) initiate any such suit, action or proceeding except at the request, or with the consent, of the Majority Creditors, unless in any such case, in the opinion of the Agent, it is adequately indemnified by the Creditors.

(i) ICC Members Have No Duties. The Creditors participating as members of, or observers to, the international coordinating committee of creditors of Yugoslav obligors and the Creditors acting as national coordinators for such committee or participating as members of any of the sub-committees (including the economics sub-committee) of such committee or of the national committees and the Creditors employing representatives of the Creditors referred to in paragraph (d) of Section 10.01 hereof, and the successors and assigns of such Creditors (each of such Creditors and its successors and assigns being herein called an "ICC Member") shall, in their capacities as such, have no duties or obligations whatsoever with respect to this Agreement or any other document or any matter related thereto. Except for the activities referred to in paragraph (d) of Section 10.01 hereof and to activities commenced by the Agent at the request of the Majority Creditors [and with the prior consent of the Paying Agent] , the activities of the ICC Members shall terminate on the Effective Date.

(j) Agent Not Deemed to Have Knowledge of Event of Default. The Agent shall not be deemed to have knowledge of the occurrence of any Event of Default (other than the non-payment of principal of or interest on a Refunding and Consolidating Loan) or any other event or condition which, with the giving of notice or the lapse of time or both, or upon a determination, would constitute an Event of Default, unless the Agent has received notice from a Creditor, an Obligor or the Guarantor specifying such Event of Default or such other event or condition (as the case may be) and stating that such notice is a "Notice of Default". The Agent shall, subject to the other provisions hereof, take such action with respect to such Event of Default or such other event or condition (as the case may be) as shall be directed by the Majority Creditors, provided that, unless and until the Agent shall have received such directions, the Agent may refrain from taking action with respect to such Event of Default or such other event or condition (as the case may be).

SECTION 13.03. Limited Liability. Neither the Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them in connection with this Agreement or the Guaranty (including, without limitation, any action taken or omitted to be taken before the date hereof by the Agent in preparation for action hereunder), except for its or their own gross negligence or wilful misconduct.

SECTION 13.04. Indemnification by Creditors. (a) Expenses. The Creditors agree to indemnify the Agent, the Administrative Coordinator and each ICC Member (to the extent not reimbursed by the Obligors or the Guarantor) for their respective ratable shares of any and all liabilities, obligations, losses, damages, penalties, judgments, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on or incurred by the Agent, the Administrative Coordinator or such ICC Member in any way relating to or arising out of this Agreement or the Guaranty or any action taken or omitted to be taken by the Agent under this Agreement or the Guaranty (including, without limitation, any action taken or omitted to be taken prior to the date hereof by the Agent, the Administrative Coordinator or such ICC Member in connection with this Agreement), provided that no Creditor shall be liable for any portion of any such amount resulting from the gross negligence or wilful misconduct of the Agent, the Administrative Coordinator or such ICC Member. Without limiting the generality of the foregoing, each Creditor agrees that it will, subject to the limitations set forth in the proviso to the immediately preceding sentence, upon demand, pay or reimburse the Agent, the Administrative Coordinator and any ICC Member (to the extent that the Agent, the Administrative Coordinator or such ICC Member (as the case may be) is not reimbursed by the Obligors or the Guarantor) for its ratable share of the agency fee and any out-of-pocket expenses (including fees of special New York, English and other counsel to the Agent and of the Administrative Coordinator) incurred in connection with the negotiation, preparation, printing, signing and administration of this Agreement or the Guaranty or any amendment hereof or thereof or waiver or consent hereunder or thereunder or in connection with investigating any alleged Event of Default or preserving any rights of the Creditors or the Agent hereunder or thereunder or obtaining legal advice in respect of the rights and responsibilities of the Creditors, the ICC Members or the Agent hereunder or thereunder or obtaining legal advice in respect of the rights and responsibilities of the Creditors, the ICC Members or the Agent hereunder or thereunder. Notwithstanding the foregoing, [(i) expenses of the Agent and ICC Members incurred prior to the Effective Date shall be subject to reimbursement under this Section 13.04 only to the extent that such expenses are subject to reimbursement pursuant to Section 14.05 hereof and (ii)] expenses of the ICC Members incurred after the Effective Date shall be subject to reimbursement under this Section 13.04 only to the extent that such expenses are incurred in connection with activities referred to in paragraph (d) of Section 10.01 hereof or otherwise commenced by the Agent on its own initiative or in response to a request by the Majority Creditors.

(b) Calculation of Ratable Shares. For purposes of paragraph (a) of this Section 13.04, the ratable share of each Creditor shall be determined (i) during the period before February 18, 1985, by reference to the proportion held by such Creditor in the aggregate amount of the Refunding and Consolidating Loans outstanding and the Eligible Principal Payments constituting Incorporated Debt and (ii) thereafter, by reference to the proportion held by such Creditor in the Refunding and Consolidating Loans outstanding.

SECTION 13.05. Successor Agent. The Agent may resign at any time by giving written notice thereof to the Creditors and the Paying Agent and may be removed at any time, with or without cause, by the Majority Creditors provided that in no event shall any such resignation be effective until a successor Agent is appointed and agrees to act as such hereunder. Upon any such notice of resignation or removal, the Majority Creditors shall have the right to appoint a successor Agent, and the Majority Creditors shall endeavor in good faith so to appoint a successor Agent. If no successor Agent shall have been so appointed by the Majority Creditors and shall have accepted such appointment within 60 days after such notice of resignation or removal, then the retiring Agent may appoint a successor Agent, which shall have offices in New York City and London and shall be a commercial bank having a combined capital and surplus of at least U.S. $1,000,000,000 or its equivalent in another currency or an Affiliate of any such commercial bank. Upon the acceptance by a successor Agent of any appointment as Agent hereunder, such successor Agent shall succeed to, and become vested with, all the rights, powers, privileges and duties of the retiring Agent, and upon (but only upon) such acceptance, the retiring Agent shall be discharged from further responsibilities under this Agreement. The provisions of this Article XIII shall continue to inure to the benefit of the retiring Agent as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

SECTION 13.06. Rights as a Creditor. With respect to Refunding and Consolidating Loans held by it, the Agent and each ICC Member shall have the same rights and powers hereunder as any other Creditor and may exercise the same as though it were not the Agent or an ICC Member (as the case may be) and the term "Creditor" shall, unless the context otherwise indicates, include the Agent and each ICC Member in its individual capacity. The Agent and each ICC Member (without having to account therefor to any Creditor) may accept deposits from, lend money to and generally engage in any kind of banking, trust or other business with any Obligor, the Guarantor, any Agency or other Yugoslav Person as if it were not the Agent or an ICC Member, and may accept fees and other consideration for services in connection with this Agreement or otherwise without having to account for the same hereunder to any Creditor so long as such action is not otherwise in violation of any provisions of this Agreement.

ARTICLE XIV

MISCELLANEOUS

SECTION 14.01. Amendments, Etc. No amendment or waiver of any provision of this Agreement or the Guaranty, nor consent to any departure by any Obligor or the Guarantor therefrom, shall in any event be effective unless the same shall be in writing and signed or consented to by the Majority Creditors (including, without limitation, by exchange of telexes), and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given, provided that no amendment, waiver or consent shall, unless in writing and signed or consented to by the Extra-majority Creditors (including, without limitation, by exchange of telexes), (a) subject the Creditors to any additional obligations, (b) reduce the principal of or interest on the Refunding and Consolidating Loans or any facility fees or other amounts payable hereunder, (c) postpone any date fixed for any payment in respect of the principal of, or interest on, the Refunding and Consolidating Loans or any facility fees or other amounts payable hereunder, (d) change the percentage of the Creditors whose consent, determination or request shall be required for the taking any action hereunder, (e) amend or waive any provision of Section 15.03 or 15.06 hereof, (f) amend or waive any other provision of this Agreement which expressly requires action by the Extra-majority Creditors or (g) change this Section 14.01 or Article XIII hereof, provided that no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Creditors required hereinabove to take such action (including, without limitation, by exchange of telexes), affect the rights or duties of the Agent under this Agreement, and provided, further, that no amendment, waiver or consent shall provide or allow for any Creditors who do not concur in such amendment, waiver or consent to (i) receive treatment adversely different from that received by those Creditors who do or (ii) reduce the principal of any Refunding and Consolidating Loan of any such Creditor or shall, unless in writing and signed or consented to by all the Creditors, provide or allow for any change in this proviso. Each Creditor agrees with each other Creditor that it will not execute and deliver any amendment, waiver or consent under the Guaranty that provides or allows for the release of any of the obligations of the Guarantor under Section 1 of the Guaranty, unless its execution and delivery of such amendment, waiver or consent is subject to the condition that, prior to such amendment, waiver or consent becoming effective, no other Creditor shall have given the Agent written notice of its objection to such release.

SECTION 14.02 Notices, Etc. All notices and other communications provided for hereunder shall, unless otherwise stated herein, be in writing (including by telex, telegram or cable) and mailed, sent or delivered (a) as to each of the Obligors, the Paying Agent and the Agent, at its address set forth under its name on the signature pages hereof, (b) as to each of the Creditors, at its address or addresses set forth in the spaces included for the specification of Lending Office in the respective Refunding and Consolidating Loan Notices executed by it and received by the Agent and the Paying Agent and (c) as to each party, at such other address as shall be designated by such party from time to time in a notice to the Obligors, the Paying Agent and the Agent, provided that such other address shall have been appropriately notified to the Agent at least 10

Working Days prior thereto. All such notices and communications shall be effective, in the case of written notice by letter, when delivered (except as otherwise provided in Section 14.08 hereof), and, in the case of notice by telegram or cable, when delivered to the telegraph company addressed as set forth above and, in the case of notice by telex, when sent and the appropriate answerback is received, except that notices and communications to the Agent shall not be effective until received by the Agent (and the Agent agrees to acknowledge receipt of each such notice or communication receipt of which it is requested to acknowledge).

SECTION 14.03. No Waiver; Cumulative Remedies. No failure on the part of the Agent or any Creditor to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The rights and remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 14.04. The Administrative Coordinator. Each of the Obligors, the Agent and the Creditors hereby confirms the appointment of the Administrative Coordinator to perform, with the cooperation of the Social Accounting Service of Yugoslavia, the functions set out in Schedule 1 hereto, and confirms that the Administrative Coordinator shall perform such duties and tasks on behalf of the Obligors, the Agent and the Creditors and shall also undertake from time to time matters incidental thereto.

SECTION 14.05. Costs and Expenses. (a) Expenses. NBY, in its capacity as the Paying Agent, agrees, on behalf of the Obligors jointly and severally, to pay on demand (i) all reasonable costs and expenses (excluding fees and disbursements of counsel) of the ICC Members described in reasonable detail in monthly statements furnished to the Paying Agent and incurred in the course of the performance by them of their duties as members thereof (including, without limitation, expenses of ICC Members incurred in connection with the activities of the economic sub-committee referred to in paragraph (i) of Section 13.02 hereof), provided that in the case of expenses related to the attendance at meetings of the ICC occurring after January 19, 1984, such expenses are limited to expenses incurred by not more than two representatives and are not duplicative of expenses submitted for payment under the 1983 Financing Agreement, (ii) all reasonable costs and expenses of the Agent described in detail to the Paying Agent, provided that such costs and expenses are not incurred by the Agent in respect of the period after the execution and delivery of this Agreement, which costs and expenses are to be covered by the agency fee (except to the extent that such costs and expenses (A) may be extraordinary or may relate to the copying of documents furnished to the Agent pursuant to Section 10.01 hereof for distribution to the Creditors and (B) are incurred with the prior consent of the Paying Agent, which consent shall not be unreasonably withheld), (iii) the fees and out-of-pocket expenses of the Administrative Coordinator (as determined pursuant to a separate agreement between the Guarantor and the Administrative Coordinator), (iv) the reasonable fees and expenses specified in detail to the Paying Agent of Messrs. Simpson Thacher & Bartlett, as special New York counsel to the Agent and the Creditors, Messrs. Coward Chance, as special English counsel to the Agent and the Creditors, and special Yugoslav counsel to the Agent and the Creditors, (v) all reasonable costs and expenses incurred in connection with the printing, reproduction and delivery of this Agreement and documented by appropriate invoices furnished to the Paying Agent, provided that such costs and expenses are incurred with the prior consent of the Paying Agent, (vi) all losses, costs and expenses (including fees and disbursements of counsel), if any, of the Agent and the Creditors in connection with the preservation of any rights of the Agent or the Creditors under, or the enforcement of, or legal advice in respect of the rights and responsibilities of the Agent or the Creditors under, this Agreement and the Guaranty and the documents delivered hereunder and thereunder (including, without limitation, losses, costs and expenses sustained by each Creditor as a result of any failure by any Obligor or the Guarantor to perform or observe its obligations contained herein or therein) which are specified in detail to the Paying Agent, and (vii) any and all liabilities, obligations, losses, damages, penalties, judgments, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on or incurred by the Agent or any ICC Member in any way relating to or arising out of this Agreement or the Guaranty or, in the case of the Agent, any action taken or omitted by the Agent hereunder or thereunder or in preparing to act as Agent hereunder, except for any losses, costs and expenses which are subject to clauses (i), (ii), (iii), (iv), (v) or (vi) of this paragraph (a) and for any such liabilities, obligations, losses, damages, penalties, judgments, costs, expenses or disbursements caused to be incurred by the gross negligence or wilful misconduct of the Agent or any ICC Member (as the case may be). The Agent will promptly transmit to the Paying Agent all invoices received by it for each of the foregoing. Notwithstanding the foregoing, expenses of the ICC Members incurred after the Effective Date of this Agreement shall be reimbursable only to the extent that such expenses are incurred in connection with activities referred to in paragraph (d) of Section 10.01 hereof or otherwise commenced by the Agent on its own initiative or in response to a request by the Majority Creditors, in either case with the prior consent of the Paying Agent. The costs and expenses referred to in clauses (i) through (v) of this subsection (a) of Section 14.05 will be payable upon submission to, and following a reasonable period for review thereof by, the Paying Agent, and each such submission shall be made prior to February 18, 1985.

(b) Losses Due to Payment on Date Other than Relevant Payment Date. If, due to payments made pursuant to Section 14.03 or Article XI hereof or due to acceleration pursuant to Section 12.01 hereof or due to any other reason, any Creditor receives a payment of the principal of or interest on any Refunding and Consolidating Loan other than on the relevant Payment Date, the Obligors shall, upon demand by such Creditor (with a copy of such demand to the Agent), pay to the Agent for the account of such Creditor any amounts required to compensate such Creditor in the relevant currency for any additional losses, costs or expenses which it may reasonably have incurred as a result of such payment other than on the Payment Date therefor, including, without limitation, any loss, cost or expense incurred by reason of the liquidation or re-employment of deposits or other funds acquired by any Creditor to fund or maintain such Refunding and Consolidating Loan, but excluding any loss of anticipated profit.

(c) Liabilities of Obligors. Notwithstanding any provision hereof to the contrary, the obligations and liabilities of the Obligors under this Section 14.05 shall become effective and binding upon the Obligors when copies of this Agreement have been executed and delivered to the Agent by each Obligor and shall survive termination of this Agreement. Nothing in this Section 14.05 shall relieve any Obligor of any liability under this Agreement to any party hereto. If any Creditor pays any amount which any Obligor is obligated to pay to the Agent or any ICC Member hereunder, such Creditor shall be subrogated to the rights of the Agent or such ICC Member (as the case may be) against such Obligor in respect of such amount.

SECTION 14.06. <u>Right of Set-Off</u> (a) <u>Authorization to Set Off</u>. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 12.01 hereof to authorize the Agent to declare the Refunding and Consolidating Loans outstanding and to be outstanding to be forthwith due and payable, each Creditor is hereby authorized, to the fullest extent permitted by law, to set off, appropriate and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Creditor to or for the credit or the account of any Obligor against any and all of the obligations of any Obligor now or hereafter existing under this Agreement, irrespective of whether or not such Creditor shall have made any demand under this Agreement and although such deposits, indebtedness and obligations may be unmatured. Each Creditor agrees promptly to notify the relevant Obligor after any such set-off and application made by such Creditor, <u>provided</u> that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Creditor under this paragraph (a) are in addition to other rights and remedies (including, without limitation, other rights of set-off) which such Creditor may have.

(b) <u>Authorization to Purchase Currencies</u>. Each Creditor is hereby authorized to purchase with moneys on deposit in any account referred to in paragraph (a) of this Section 14.06, such currencies as may be necessary to effect the application referred to in said paragraph (a).

SECTION 14.07. <u>Judgment</u>. (a) <u>Conversion of Currencies</u>. If, for the purpose of obtaining judgment in any court, it is necessary to convert a sum due hereunder in one currency into another currency, the parties hereto agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures the Agent could purchase the first currency with such other currency in the city in which is located the Payment Account for the first currency on the Banking Day immediately preceding the day on which final judgment is given.

(b) <u>Discharge of Obligations</u>. The obligation of the Obligors in respect of any sum due to any Creditor or the Agent hereunder shall, notwithstanding any judgment in a currency (the "<u>Judgment Currency</u>") other than that in which such sum is denominated in accordance with the applicable provisions of this Agreement (the "Agreement Currency"), be discharged only to the extent that on the Banking Day following receipt by such Creditor or the Agent (as the case may be) of any sum adjudged to be so due in the Judgment Currency such Creditor or the Agent (as the case may be) may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency; if the amount of the Agreement Currency so purchased is less than the sum originally due to such Creditor or the Agent (as the case may be) in the Agreement Currency, the Obligors agree, as a separate obligation and notwithstanding any such judgment, to indemnify such Creditor or the Agent (as the case may be) against such loss, and if the amount of the Agreement Currency so purchased exceeds the sum originally due to any Creditor or the Agent (as the case may be), such Creditor or the Agent (as the case may be) agrees to remit to the Paying Agent such excess. The indemnities of the Obligors under this Section 14.07 shall survive the termination of this Agreement.

SECTION 14.08. Jurisdiction; Appointments; Waivers. (a) Consent to Jurisdiction. Each of the Obligors and the Paying Agent hereby irrevocably and unconditionally submits, for itself and its property, to the non-exclusive jurisdiction of (i) any New York State court or Federal court of the United States of America sitting in The City of New York, (ii) the High Court of Justice in London, England, (iii) any competent Yugoslav court sitting in Belgrade, Yugoslavia and (iv) any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for the recognition or enforcement of any judgment, and each of the Obligors and the Paying Agent hereby irrevocably and unconditionally agrees that all claims in respect of such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court, in the High Court of Justice in London or in the competent Yugoslav court in Belgrade. Each of the Obligors and the Paying Agent agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(b) Waiver of Immunity. To the extent that any of the Obligors or the Paying Agent has or hereafter may acquire or have attributed to it any immunity (sovereign or otherwise) from suit, the jurisdiction of any court or from set-off or any legal process (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment, arrest of property or otherwise) with respect to itself or its property, it hereby irrevocably and unconditionally agrees not to plead or claim, and waives, such immunity in respect of its obligations hereunder and, without limiting the generality of the foregoing, (i) agrees that such immunity is hereby waived to the fullest extent permitted under the laws applicable thereto in any jurisdiction in which an action may be brought and that the waivers set forth in this paragraph (b) are intended to be unconditional and irrevocable for purposes of any such laws and not subject to withdrawal and (ii) consents generally for the purposes of the laws in any such jurisdiction to the giving of any relief or the issue of any process.

(c) Appointment of Process Agents. Each of the Obligors and the Paying Agent hereby irrevocably and unconditionally appoints (i) CT Corporation System (the "New York Process Agent"), with an office on the date hereof at 1633 Broadway, New York, New York 10019, United States of America, as its agent to receive, on behalf of it and its property, service of copies of the summons and complaint and any other process which may be served in any action or proceeding referred to in paragraph (a) of this Section 14.08 in any New York State or Federal court referred to therein and (ii) The Law Debenture Corporation p.l.c. (the "London Process Agent"), with an office on the date hereof at Estates House, 66 Gresham Street, London EC2V 7HX, England, as its agent to receive, on behalf of it and its property, service of copies of the summons and complaint and any other process which may be served in any such action or proceeding in the High Court of Justice in London, and agrees promptly to appoint a successor New York Process Agent or London Process Agent in The City of New York or London, England (as the case may be), which successor New York Process Agent or London Process Agent shall accept such appointment in form and substance satisfactory to the Agent, prior to the termination for any reason of the appointment of the then New York Process Agent or London Process Agent (as the case may be). Such service shall be made on any of the Obligors or the Paying Agent by delivering a copy of such process to it in care of the New York Process Agent or the London Process Agent (as the case may be) at the address thereof and by depositing a copy of such process in the mails, addressed to it at its address specified in Section 14.02 hereof. Each of the Obligors and the Paying Agent also hereby irrevocably agrees as an alternative method of service, service by registered or certified air mail to each or all of them at their respective addresses referred to in Section 14.02. Each of the Obligors and the Paying Agent also hereby irrevocably and unconditionally waives any claim of error arising out of service of process by any method provided for herein or that such service was not effectively made. Each of the Obligors and the Paying Agent agrees that the failure of the New York Process Agent or the London Process Agent (as the case may be) to give any notice of any such service of process to it shall not impair or affect the validity of such service or any judgment based thereon.

(d) Submission Not Exclusive. Nothing in this Section 14.08 shall affect any right that any Creditor or the Agent may otherwise have to bring any action or proceeding relating to this Agreement against any of the Obligors or the Paying Agent or their property in the courts of any jurisdiction and, in connection therewith, to serve legal process in any other manner permitted by law.

(e) Forum. Each of the Obligors and the Paying Agent hereby irrevocably and unconditionally waives, to the fullest extent it may effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any New York State or Federal court. Each of the Obligors and the Paying Agent hereby irrevocably waives, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

SECTION 14.09. Binding Effect; Partial Invalidity; Survival. When this Agreement shall have become effective pursuant to Section 7.02 hereof, it shall be binding on and inure to the benefit of the parties hereto and, subject to Section 14.10, their respective successors and permitted assigns. If one or more provisions contained in this Agreement shall be void, invalid, illegal or unenforceable in any respect in any jurisdiction with respect to any party, such voidness, invalidity, illegality or unenforceability in such jurisdiction or with respect to such party shall not, to the fullest extent permitted by applicable law, invalidate or render illegal or unenforceable such provision in any other jurisdiction or with respect to any other party. To the fullest extent it may effectively do so under applicable law, each of the parties hereto waives any provision of law which renders any provision hereof invalid or illegal in any respect. Without prejudice to the survival of any other agreement of the Obligors or the Paying Agent hereunder, the agreements of the Obligors contained in Sections 5.09, 5.10, 13.04 and 14.05 hereof shall survive the payment in full of the Refunding and Consolidating Loans and interest thereon.

SECTION 14.10. Assignments. (a) Assignment of Rights By Creditors. Any Creditor may at any time assign its rights and obligations under this Agreement as a whole to another Creditor or financial institution (an "Assignee"), provided that:

(i) such Creditor shall not be relieved of any obligation so assigned unless the Assignee is an Affiliate of such Creditor or such assignment is made with the prior written consent of the Paying Agent (which shall not be unreasonably withheld and shall be deemed to have been given if the Paying Agent fails to reply to a request for its consent within 15 Working Days after its receipt thereof);

(ii) the Obligors, the Paying Agent and the Agent may continue (A) to treat such Creditor as a Creditor named herein for all purposes hereof (including payments) until the Paying Agent and the Agent shall have received written notice of such assignment signed by such Creditor and (B) to treat such Creditor as a Creditor named herein for all purposes hereof (other than payments) until the Paying Agent and the Agent shall have received an agreement (in form satisfactory to the Agent) signed by the Assignee to the effect that the Assignee is bound by this Agreement as fully and to the same extent as if originally named as a Creditor herein;

(iii) upon compliance with clause (A) of subparagraph (ii) of this paragraph (a), all payments in respect of the rights assigned shall be made to the relevant Assignee and upon compliance with clause (B) of said subparagraph (ii), the Assignee shall become a "Creditor" for all purposes hereof with respect to the rights and obligations assigned to it and the rights and, upon compliance with subparagraph (i) of this paragraph (a), the obligations of the assigning Creditor shall terminate; and

(iv) unless the Paying Agent shall have consented in writing to such assignment (which approval shall be deemed to have been given if the Paying Agent fails to reply to a request for its consent within 15 Working Days after its receipt thereof), immediately after any such assignment, the Assignee thereunder shall not have any greater right pursuant to Sections 5.09 and 5.10 hereof than the assignor thereunder immediately before such assignment.

Nothing in this Section 14.10 shall limit or restrict the effectiveness of any assignment of any Eligible Principal Payment pursuant to Section 2.05 hereof or prevent any Creditor from granting participations in its rights under this Agreement.

(b) Change of Lending Office. Any Creditor may at any time change its Lending Office in respect of any of its Refunding and Consolidating Loans by giving notice of such change to the Agent and the Paying Agent, provided that unless the Paying Agent shall have consented in writing to such change (which consent shall be deemed to have been given if the Paying Agent fails to reply to a request for its consent within 15 Working Days after its receipt thereof), after any such change, such Creditor shall not have any greater rights in respect of such Refunding and Consolidating Loan (as the case may be) pursuant to Sections 5.09 and 5.10 hereof than it had in respect thereof immediately before such change.

(c) Assignment of Rights By Obligors, Paying Agent and Guarantor. None of the Obligors, the Paying Agent and the Guarantor shall assign any of its rights or obligations under this Agreement.

(d) Definitions. As used in this Section 14.10, "assign" means assign or otherwise transfer; and "rights" means any rights or other benefits.

SECTION 14.11. Addition of Creditors. Any person may at any time before February , 1985 become a party to this Agreement as a "Creditor" (other than by taking an assignment pursuant to the provisions of Section 14.10 hereof) by executing and delivering to the Agent, in not fewer than five counterparts, a supplement to this Agreement in substantially the form of Exhibit Z hereto.

SECTION 14.12. Governing Law. This Agreement and the rights and obligations of the parties hereunder shall be governed by, and construed and interpreted in accordance with, the law of the State of New York, United States of America.

SECTION 14.13. Obligations of the Creditors Several. The obligations of the Creditors hereunder are several. The failure of any Creditor to carry out its obligations hereunder shall not relieve any other Creditor, the Agent, any Obligor or the Paying Agent of any of its obligations hereunder, nor shall any Creditor or the Agent be responsible for the obligations of, or any action taken or omitted by, any other Creditor. The amounts payable at any time hereunder to each Creditor shall be a separate and independent debt and each Creditor shall be entitled to protect and enforce its rights arising out of this Agreement, and it shall not be necessary for any other Creditor to be joined as an additional party in any proceedings for such purpose, but each Creditor agrees to give the Agent prior notice of the commencement of any such proceeding, and the Agent will promptly notify each other Creditor thereof.

SECTION 14.14. Use of English Language. This Agreement has been negotiated and executed in the English language. All certificates, reports, notices and other documents and communications given or delivered pursuant to this Agreement shall be in the English language, or accompanied by a certified English translation thereof.

SECTION 14.15. Computations of Currencies. (a) General Calculations. For purposes of making calculations contemplated hereunder for any purpose other than the purposes referred to in paragraphs (b), (c) and (d) of this Section 14.15 (including, without limitation, for the purpose of determining any percentage or proportion of the aggregate principal amount of the Refunding and Consolidating Loans or Eligible Principal Payments constituting Incorporated Debt or otherwise or any pro rata or ratable shares to be determined in proportion to such aggregate principal amount), Refunding and Consolidating Loans and Eligible Principal Payments in any currency other than U.S. Dollars shall be converted into U.S. Dollars at the exchange rate equal to the spot rate (as quoted by the Agent) for the purchase in the London foreign exchange market of U.S. Dollars with such other currency at approximately 11:00 A.M. (London time) on the first Working Day of the calendar quarter during which any such calculation shall be made.

(b) Calculations of Refunding and Consolidating Loans. For the purpose of calculating any Refunding and Consolidating Loan made on any Refunding and Consolidating Loan Date in a currency other than the currency in which the related Eligible Principal Payment was outstanding, the exchange rate to be used shall be the average (rounded upward, if necessary, to the nearest whole multiple of 1/100 of 1%) of the spot market rates quoted to the Agent by each of the Exchange Reference Banks for the currency in which such Refunding and Consolidating Loan is to be made as the rate at which such Exchange Reference Bank is offered for purchase in the interbank market in the city in which the Payment Account for the currency of such Refunding and Consolidating Loan is located at approximately 11:00 A.M. (local time in such city) on the day two Business Days prior to such Refunding and Consolidating Loan for settlement on such Refunding and Consolidating Loan Date [$1,000,000] (or its equivalent) of the currency of such Refunding and Consolidating Loan with the currency in which the Eligible Principal Payment is denominated.

(c) Calculations of Facility Fees. For the purpose of calculating the amount of the facility fee payable to any Creditor in respect of Eligible Principal Payments constituting Incorporated Debt on account of a Refunding and Consolidating Loan to be made by such Creditor denominated in a currency other than U.S. Dollars, the exchange rate to be used shall be the exchange rate which would be used to convert on the relevant Refunding and Consolidating Loan Date an Eligible Principal Payment denominated in the currency [in which the Eligible Principal Payment related to such Refunding and Consolidating Loan is denominated] [in which such Refunding and Consolidating Loan is to be made] to a Refunding and Consolidating Loan denominated in U.S. Dollars.

(d) Calculations for Purposes of Sections 5.03 and 5.06. For the purpose of making any calculations under Sections 5.03 and 5.06 hereof for the conversion of one currency into another currency, the exchange rate to be used shall be the spot rate (as quoted by the Agent) for the purchase in the London foreign exchange market of such other currency with such currency at approximately 11:00 A.M. (London time) on the date on which the applicable currency exchange is made or on the relevant Calculation Date (as the case may be).

SECTION 14.16. Escrow Arrangements for Arrears and Interest Adjustment Amounts. Each of the Obligors, the Paying Agent and the Creditors hereby agrees that the Agent shall hold all funds in each currency deposited with it in escrow as contemplated by paragraph (a) of Section 3.10 hereof and paragraph (b) of Sections 7.01 and 7.03 hereof and the proviso to Section 7.02 hereof in a special purpose bank account maintained by the Agent (which may be a special purpose sub-account maintained by the Agent in accordance with its customary controls within its general depository account) in the depository institution in which the Payment Account for such currency is maintained or, if such currency is other than a Permitted Currency, in such other depository institution as selected by the Agent in its sole discretion. Funds deposited with the Agent in escrow shall be accepted and held on the following terms and conditions:

(a) funds shall be accepted for deposit in escrow in respect of an Arrear or an Interest Adjustment Amount (as the case may be) only when there is a dispute as to amount of such Arrear or Interest Adjustment Amount. Funds deposited shall be equal to the amount claimed by the Creditor to be the amount of such Arrear or Interest Adjustment Amount and shall be accompanied by a certificate or telex exchange from both such Creditor and the relevant Yugoslav Obligor or the Paying Agent (as the case may be) identifying such Arrear or Interest Adjustment Amount and the amount claimed by such Creditor to be due;

(b) funds on deposit in escrow shall, to the extent practicable in the sole discretion of the Agent, be invested with prime banks in the local interbank call market (or any similar market) and the earnings on such funds shall be retained as additional amounts in escrow. The Agent shall not be liable or responsible for any investment losses;

(c) funds deposited in escrow in respect of an Arrear or Interest Adjustment Amount (as the case may be) shall be released from escrow in accordance with the following:

(i) such funds shall be so released upon receipt by the Agent of a certificate or telex exchange from both the relevant Creditor and the relevant Yugoslav Obligor or the Paying Agent (as the case may be) identifying such Arrear or

Interest Adjustment Amount and specifying the amount (if any) mutually agreed upon as the amount to be paid to such Creditor in satisfaction of its claim and specifying the transfer instructions for such amount. The amount specified as the amount to be transferred to such Creditor in satisfaction of its claim shall be based upon the amount claimed as of the date on which the deposit into escrow was made and shall not include any amount representing interest on or a penalty in respect of such amount due as a result of the failure to make payment of such claim on such date. The actual amount transferred to such Creditor shall be equal to the amount specified as the amount to be paid to it in satisfaction of its claim, together with a ratable portion of the earnings on the funds deposited in escrow in respect of such claim. The remainder of the funds deposited in escrow in respect of such claim and of the earnings thereon shall be transferred to such Yugoslav Obligor or the Paying Agent (as the case may be) in accordance with its transfer instructions; or

(ii) such funds shall be so released upon the entry by a court of a final judgment binding upon both the relevant Creditor and the relevant Yugoslav Obligor or the Paying Agent (as the case may be) with respect to the dispute regarding such Arrear or Interest Adjustment Amount and the receipt by the Agent of actual knowledge of such final judgment. The amount (if any) to be transferred to such Creditor pursuant to such final judgment shall be the amount adjudged to be the amount owing to such Creditor, together (if such judgement does not include interest through the date of such transfer) with a ratable portion of the earnings on the funds deposited in escrow in respect of such dispute. Such transfer shall be made in accordance with transfer instructions received by the Agent from such Creditor or (in the absence of such instructions) as the Agent may deem appropriate. The remainder of the funds deposited in escrow in respect of such dispute and earnings thereon shall be transferred to such Yugoslav Obligor or the Paying Agent (as the case may be) in accordance with its transfer instructions.

SECTION 14.17. Execution in Counterparts. This Agreement and any amendment or supplement hereto, any waiver hereof or any consent hereunder may be executed in any number of counterparts and by different parties on separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. A counterpart of this Agreement executed by each Obligor, the Paying Agent and the Agent shall be delivered to each Creditor. One complete set of counterparts of this Agreement and of each amendment or supplement hereto shall be delivered to the Paying Agent, one complete set of such counterparts shall be delivered to the Guarantor and two complete sets of such counterparts shall be delivered to the Agent.

SECTION 14.18. Final Day for Effective Date. If, for any reason, the Effective Date does not occur on or before the day 60 days after the date of this Agreement, the agreements and obligations of any party who has executed and delivered this Agreement on or before such day shall terminate and such party shall not be bound hereby.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officials, officers or agents thereunto duly authorized, as of the date first above written.

OBLIGORS

THE NATIONAL BANK OF YUGOSLAVIA

By______________________________
Title:

Address: 11000 Beograd
Bulevar Revolucije 15
Yugoslavia
Telex No.: 11574
Attention: [General Manager
International
Credit Relations]

DUBROVACKA BANKA-OSNOVNA
BANKA DUBROVNIK

By________________________________
Title:

Address: 50000 Dubrovnik
Put Republike 32
Yugoslavia
Telex No.: 27540
Attention: [Vladimir R. Strazicic]
[Manager,
International Division]

ISTARSKA OSNOVNA BANKA PULA

By________________________________
Title:

Address: 52000 Pula
Trg Republike 2
Yugoslavia
Telex No.: 25241
Attention: [Aton Racan]
[General Manager]

JUGOBANKA UDRUZENA BANKA

By________________________________
Title:

By________________________________
Title:

Address: 11000 Beograd
7. Jula 19-21
Yugoslavia
Telex No.: 11610
Attention: [Milomir Ilic]
[Assistant General Manager, International]

KOMERCIJALNA BANKA VUKOVAR
OSNOVNA BANKA VUKOVAR

By________________________________
Title:

Address: 56230 Vukovar
Marsala Tita 1
Yugoslavia
Telex No.: 28261
Attention: [Milan Maksimovic]
[Director]

INVESTICIONA BANKA TITOGRAD-
UDRUZENA BANKA

By________________________________
Title:

Address: 81000 Titograd
Bulevar Revolucije 1
Yugoslavia
Telex No.: 61118
Attention: [Toma Jorovic]
[Manager of the
Foreign Loans
and Special
Arrangements Division]

KREDITNA BANKA MARIBOR

By____________________________
Title:

Address: 62000 Maribor
Vita Kraigherja 4
Yugoslavia
Telex No.: 33177
Attention: [Franc Hvalec]
[President of the
Management Board]

LJUBLJANSKA BANKA-ZDRUZENA
BANKA LJUBLJANA

By______________________________
Title:

Address: 61000 Ljubljana
Trg Revolucije 2
Yugoslavia
Telex No.: 31256
Attention: [Gregor Dolenc]
[General Manager,
International]

OSNOVNA BANKA KOMERCIJALNA
BANKA ZADAR

By______________________________
Title:

Address: 57000 Zadar
Trg 27 Marta 3
Yugoslavia
Telex No.: 27141
Attention: [Gregor Stipic]
[General Manager]

PRIVREDNA BANKA SARAJEVO-
UDRUZENA BANKA

By______________________________
Title:

Address: 71000 Sarajevo
Obala Vojvode Stepe 19
Yugoslavia
Telex No.: 41289
Attention: [Midhat Mulic]
[Assistant General
Manager]

PRIVREDNA BANKA ZAGREB

By_____________________________
Title:

Address: 41000 Zagreb
Rackoga 6
Yugoslavia
Telex No.: 21120
Attention: [Branko Gavrilovic]
[Manager,
Foreign Exchange
Department]

RIJECKA BANKA-OSNOVNA BANKA

By_____________________________
Title:

Address: 51000 Rijeka
Trg P. Togliatti 3A
Yugoslavia
Telex No.: 24143
Attention: [Vladimir Soic]
[Assistant General
Manager of
Foreign Credits and
Guaranties]

SLAVONSKA BANKA OSIJEK

By _____________________________
Title:

Address: 54000 Osijek
Bulevar JNA 29
Yugoslavia
Telex No.: 28235
Attention: [Kresimir Fekete]
[Divisional Manager]

SPILTSKA BANKA SPLIT

By______________________________
  Title:

Address: 58000 Split
Rudjera Boskovica 16
Yugoslavia
Telex No.: 26161
Attention: [Ivo Lisica]
[Adviser]

STOPANSKA BANKA-ZDRUZENA BANKA

By__________________________________
  Title:

Address: 91000 Skopje
11 Oktomvri 7
Yugoslavia
Telex No.: 51140
Attention: [Pavle Stevanoski]
[Director, International Division]

UDRUZENA BEOGRADSKA BANKA

By________________________________
Title:

Address: 11000 Beograd
Knez Mihajlova 2-4
Yugoslavia
Telex No.: 11712
Attention: [Izudin Mulaganovic]
[General Manager, International]
[Garrilo Djedovic]
[Assistant General Manager, International]

UDRUZENA KOSOVSKA BANKA

By________________________________
Title:

Address: 38000 Pristina
Marsala Tita 38
Yugoslavia
Telex No.: 18322
Attention: [Ljirije Osagi]
[Chief of Guarantee and Loan Department]

VOJVODJANSKA BANKA-
UDRUZENA BANKA

BY_______________________________
Title:

Address: 21000 Novi Sad
Bulevar Marsala Tita 14
Yugoslavia
Telex No.: 14129
Attention: [Slobodanka Berisaljevic]
[Vice President of
Management Board]

ZAGREBACKA BANKA ZAGREB

By______________________________
Title:

Address: 41000 Zagreb
Paromlinska BB
Yugoslavia
Telex No.: 21463
Attention: [Marija Trbovic]
[Divisional Manager]

Paying Agent

THE NATIONAL BANK OF YUGOSLAVIA,
as Paying Agent

By________________________________
Title:

Address:	11000 Beograd Bulevar Revolucije 15 Yugoslavia
Telex No.:	11574
Attention:	General Manager, International Credit Relations

AGENT

MANUFACTURERS HANOVER LIMITED,
as Agent

By________________________________
Title:

Address:	8 Princes Street London EC2P 2EN England
Telex No.:	884901
Attention:	Clive Farrand

CREDITORS

INTERNATIONAL MONETARY FUND

Lynne

done 3/19 / Pl. let Jean Lelf know. / Ma

TO : LAW

FROM: HS

The Yugoslav Board meeting has now been tentatively scheduled for Friday April 20, at the SEC's insistence. The DMD was informed that it would be April 18. Shall we call him?

3/19

INTERNATIONAL MONETARY FUND

March 17, 1984

TO : THE MANAGING DIRECTOR

FROM: WILLIAM B. DALE

SUBJECT: Yugoslavia: Request for Stand-by

I have reviewed the staff paper with care. I think it is a good one, which strikes the right balance between past and present accomplishments and what remains to be achieved.

I recommend approval.

I have a few questions and comments on the main one on the stance of monetary policy

March 18.84

Office Memorandum

To: The Acting Managing Director March 16, 1984

From: L.A. Whittome

Subject: Yugoslavia--Request for Stand-by Arrangement

Please find attached for your approval a draft of the request for stand-by arrangement paper. It has been cleared with Mr. Hood (RES), Mr. Mookerjee (ETR), Mr. Leddy (TRE), and Mr. Holder (LEG).

The letter of intent has been approved by the Federal Executive Council of Yugoslavia and the assemblies of the republics and provinces and is expected to be approved by the Federal Assembly on Tuesday, March 20, 1984.

The Board meeting has tentatively been scheduled for Wednesday, April 18, 1984. To meet that date may we, if at all possible please, have the paper returned to the European Department by Wednesday, March 21, 1984.

Attachment

cc: The Managing Director (on return)
Mr. Collins

To: The Acting Managing Director

March 16, 1984

From: L.A. Whittome

Subject: Yugoslavia--Request for Stand-by Arrangement

Please find attached for your approval a draft of the request for stand-by arrangement paper. It has been cleared with Mr. Hood (RES), Mr. Mookerjee (ETR), Mr. Leddy (TRE), and Mr. Holder (LEG).

The letter of intent has been approved by the Federal Executive Council of Yugoslavia and the assemblies of the republics and provinces and is expected to be approved by the Federal Assembly on Tuesday, March 20, 1984.

The Board meeting has tentatively been scheduled for Wednesday, April 18, 1984. To meet that date may we, if at all possible please, have the paper returned to the European Department by Wednesday, March 21, 1984.

Attachment

cc: The Managing Director (on return)
Mr. Collins

INFORMATION COPY

Mr. Whittome

Office Memorandum

March 16, 1984

MEMORANDUM FOR FILES

Subject: Yugoslavia - EIB

I was in Luxembourg on March 15 to discuss relations between the EIB and Yugoslavia and to brief Mr. Le Portz and his associates on the contemplated new stand-by and the timetable for action by creditor governments and commercial banks. I had a working session with Mr. Hartwich, Manager, and Mr. Adams, Division Chief, of the Directorate for Operations Outside the Community, and one associate, and a luncheon with Mr. Le Portz, Mr. Leroux, Manager, Research Directorate, and the above-mentioned officials.

1. Implementation of the 1980-85 financial protocol.

The first two loans by EIB to Yugoslavia were granted in 1979 (electricity ECU 25 million, roads ECU 25 million, both now completely disbursed). Since 1980, these interventions are covered by a financial protocol between Yugoslavia and the EIB (ECU 200 million) to be used during the period July 1, 1980 to June 30, 1985 for projects of common interest to Yugoslavia and the EC.

Due to delays in ratification, implementation of the protocol started in 1982. It has now been fully used in three loans, each of ECU 66.6 million: electricity (December 1982), highways (June 1983), railways (February 1984), but no disbursement had yet taken place on any of these loans due, notably, to internal Yugoslav difficulties since each individual project included sub-projects in individual Yugoslav Republics.

a. Electricity (co-financing with the World Bank, lead bank: Yugobanka). The project has been redefined by the World Bank, but the EIB is prepared to release ECU 10 million in advance of the World Bank loan to cover initial expenditures. The project is now under way and total disbursements could reach ECU 25 million in 1984.

b. Highways (lead bank: Beogradska Banka). There have been changes in the definition of the project. In addition, in each case, the EIB asked for guarantees from an associated bank and from the Republic of Yugoslavia which insists on prior guarantee by an associated bank. In view of the new rules for solidarity between debtors introduced by the revision of the foreign exchange law in 1983, associated banks are now reluctant to extend such guarantees for a final borrower which does not, itself, generate foreign exchange proceeds. If this difficulty were overcome, and I will discuss the matter in Belgrade with Mr. Dumjovic, disbursements could reach ECU 25 million in 1984.

c. Railways (lead bank: Ljubljanska Banka). The project is well defined and it does not seem likely that there will be any difficulty in getting guarantees. Therefore, disbursementscould reach up to ECU 50 million in 1984.

Overall, Mr. Adams thought that total disbursements by the EIB could reach up to ECU 100 million in 1984, the remaining ECU 100 million being spread over two years. But reaching these figures supposes that the projects are now implemented speedily.

2. Interim credit (1984).

When we met with Mr. Le Portz at the time of the 1983 Annual Meetings, he mentioned that Yugoslavia, subject to unanimous approval by the EIB Governors, could be eligible for a loan in 1984 pending the completion of negotiations on a new protocol, since the present protocol had now been fully used. EIB management has proposed to its Executive Board at the beginning of March to agree on the principle of such a loan (ECU 66.6 million - highways). It has been endorsed by the Executive Board and will be voted upon by Governors on March 23. The attitude of governments is positive with, however, a desire to reduce somewhat, probably to ECU 50 million, the contemplated amount. The EIB will then be in a position to study the project in more detail and to have it approved in June 1984.

3. New protocol.

A committee meeting on cooperation between EC countries and Yugoslavia will be held in June in Belgrade. It should initiate detailed negotiations on a future protocol (probably three years, starting on July 1, 1985), to be endorsed later by the Ministers, meeting in a cooperation council.

It was too early to foresee its possible magnitude; EIB would have to devote additional resources to Spain and Portugal, potential or actual new members. On the other hand, if the World Bank resumes it intention to graduate Yugoslavia, the EIB could appear as a reasonable substitute. Political discussions between the Yugoslav authorities and EC governments will be essential.

I mentioned that, if it were possible for the EIB to envisage, in addition to project loans, "global loans" extended to a bank, relending it to export-oriented industries, a type of loan already granted by the EIB to Portugal and Turkey, it would suit Yugoslav requirements well. Mr. Le Portz and Mr. Hartwich said that the issue had already been raised by the Yugoslavs. EIB management is open-minded and even rather positive. But it would imply a broadening, in the new protocol, of the scope of EIB lending to Yugoslavia and some EC countries might resent the idea of promoting exports of Yugoslavia to EC countries in view of sectorial difficulties (textile).

4. Cofinancing.

I said that cofinancing with the World Bank and the EIB could pave the way for the restoration of Yugoslavia's access to capital markets and I described the intentions of the World Bank in this respect. Mr. Hartwich said that, for a long time, the Yugoslavs have been reluctant about cofinancing, but that this attitude now seemed to be changing. He added that the EIB had just had a very successful cofinancing operation of $50 million on Portugal (basically subscribed by Dutch, French and Japanese banks which wanted to establish a presence in Portugal), and he was attracted by the idea of a similar operation on Yugoslavia.

They will receive a visit from Société Général next week and enquired about other possible interested banks. I mentioned European ICC members, notably Barclays and Westdeutsche Landesbank. Ideally, the Yugoslavs should initiate a meeting between the EIB and commercial banks, but the EIB stands ready to have direct contacts with banks. Mr. Hartwich mentioned that Austrian and Bavarian banks could be interested by the financing of a toll tunnel between Austria and Yugoslavia which might be a part of the 1984 highways project.

Mr. Le Portz enquired about the type of cofinancing that the commercial banks would have in mind. I said that parallel financing of the Portuguese type might not prove sufficient and that commercial banks might insist on a formula somewhat similar to the new World Bank loans under which the EIB would take the longer maturities. Mr. Le Portz and Mr. Hartwich had no major difficulty with it.

5. Economic situation.

Mr. Le Portz and Mr. Hartwich raised questions concerning the timetable contemplated for action, and decision-making in Yugoslavia. They stressed that a proper foreign exchange allocation system was essential to future progress. Mr. Le Portz was in Yugoslavia in the first week of March. He was not too impressed by the Yugoslavs, the more so when he was told that, due to a fundamental revision starting in 1983, Yugoslav banks would now have to ascertain, before extending a credit, that the borrower had the capacity to repay. His associates had no detailed knowledge of economic developments in Yugoslavia. They rely heavily on IMF and World Bank papers, and I left them tables on balance of payments developments.

P. Mentré

cc: Mr. Whittome
Mr. Schmitt
cc: Mr. Boorman
Mr. Hansen
Mr. Petersen

Office Memorandum

file

TO : Mr. Schmitt **DATE:** March 15, 1984

FROM : S. Mookerjee SM

SUBJECT : Yugoslavia

I have a number of comments, as follows:

appendix nr 15k. → of p. 3

(1) Since Yugoslavia just completed a three-year arrangement, the present draft should review the implementation of this arrangement and the progress made toward its objectives. There is no review in the current draft of the stand-by arrangement as a whole, only a description of developments in 1983.

10 perf. clauses

(2) The draft merely notes (page 9) that a number of policy undertakings were not observed but says nothing about the effects of this failure. Similarly, no comment is made on the failure to observe certain performance criteria after the last purchase. (This latter point may be picked up in the appraisal and the importance of a consistent application of policies stressed.)

in the text p. 27

(3) The paper points out that the proposed program should be viewed as part of a longer-term adjustment process. However, as the medium-term scenario remains buried in Appendix III, there is no framework for assessing the adequacy of the proposed program in the appraisal.

(4) An explanation of the proposed amount of Fund credit is required in the appraisal.

(5) An explanation is also called for as to why there is such a formidable number of performance criteria, including some on micro-economic variables, and how this is consistent with the conditionality guideline.

(6) On page 30 the point is made that the usual comparisons do not provide an entirely reliable indicator of the adequacy of the dinar exchange rate. This may be so, but shouldn't you state the reasons?

(7) On presentation, it would be useful to have a table of contents. Also, a summary of the main features of the proposed program should be included in the appendix.

I am also attaching two comments by Mr. Donovan.

Attachment

✓ more on prices in appraisal.

Office Memorandum

TO : Mr. Mookerjee

DATE: March 15, 1984

FROM : Donal Donovan

SUBJECT : Yugoslavia--Draft Stand-By Request Paper

I have the following comments:

1. The gross reserve target (which is a performance criterion) is adjustable in that any increase in short-term debt is added to the "base" targeted increase of US$500 million (see Annex IX). At the same time, although the short-term debt ceiling allows for up to US$0.5 billion of new borrowing, the programmed balance of payments (which is consistent with the aforementioned reserve target) has not built in any such new short-term debt in the capital inflow projection. The question can therefore be asked as why the borrowing ceilings allow for any increase in short-term debt as it is not included in the program and recourse to this form of financing does not help the authorities to meet the reserve target. More important, increases in such debt could exacerbate the problem of the rollover of existing short-term debt in the first half of 1985 which is referred to on page 26.

2. In the summary of the medium-term outlook on page 27, the impression is given that a rescheduling could be avoided in 1985. However, in Appendix III (which sets out the medium-term forecast in more detail), a starting point is the assumption of a need for special financing in both 1984 <u>and</u> 1985. Also, the very last line on page 3 of this Appendix implies that adequate financing can be obtained "without resorting to the financing packages of 1983 and 1984." This also appears to be somewhat internally inconsistent with the rest of the Appendix.

Office Memorandum

March 15, 1984

MEMORANDUM FOR FILES

Subject: Yugoslavia--Ratification of Letter of Intent

Mrs. Hofmann of the National Bank of Yugoslavia called me this morning to convey a formal message to the effect that the Federal Executive Council had recommended approval of the draft letter of intent to the Federal Assembly. The Assembly will act on it on March 20, 1984 after receiving the reactions of the Republics and Provinces. The reactions that have already come in have thus far all been positive; the remainder will come in tomorrow, and Mrs. Hofmann will then call again. If there is unanimous consent no problems will arise at the level of the Federal Assembly; otherwise there will have to be debate. I reminded Mrs. Hofmann that the Geneva meeting of friendly governments was scheduled for March 24, 1984, and that we would have to have a positive verdict by March 20, 1984 at the latest, if that meeting was not again to be postponed.

Hans Schmitt

cc: Mr. Whittome
Mr. Mentré
CED

INTERNATIONAL MONETARY FUND

March 15, 1984

Mr. Whittome
Mr. Schmitt

The attached confirms that the extension of the standstill for Yugoslavia is for three months to end-June 1984.

Att.

John T. Boorman

March 15, 1984

(extract from memo to files from Mentre) - copy will be hand carried back by Mr. Hood tomorrow, from Paris Office

A telex spelling out the terms and conditions as reviewed by the March 13 ICC meeting would be sent to the Yugoslavs on March 14. The Yugoslav reply should be sent around March 23. Manufacturers Hanover would then immediately and in any case not later than March 26 send to all banks a telex recommending an extension of the standstill period from end-March to end-June and proposing the terms and conditions of the 1984 refinancing agreement.

Mr. Whittome

Office Memorandum

March 14, 1984

MEMORANDUM FOR FILES

Subject: Yugoslavia - ICC meeting (March 13)

On March 12-13, I was in London to attend an ICC meeting and to have preparatory discussions with Manufacturers Hanover.

On the 12th, I was briefed by Mr. Dobrich and Miss Mudd on the timetable they were now contemplating. A telex spelling out the terms and conditions, as reviewed by the March 13 ICC meeting, would be sent to the Yugoslavs on March 14. The Yugoslav reply should be sent around March 23. Manufacturers Hanover would then immediately, and in any case not later than March 26, send to all banks a telex recommending an extension of the stand-still period from end-March to end-June and proposing the terms and conditions of the 1984 refinancing agreement. Manufacturers Hanover would need, at that time--i.e., by the end of next week--a telex from the Managing Director of the Fund in support of this action, with reference to the proposed stand-by. It is expected that the dispatching of the telex on terms and conditions will speed up the reconciliation process which, up to now, has been rather slow (in particular, Mr. Dobrich, who had had a meeting in London with Peat Marwick Mitchell, had no updated figure to offer on the size of the refinancing agreement). The loan agreement could be signed in the third week of May and the individual promissory notes around mid-June. Among the conditions for the agreement to be effective would be the approval of the IMF stand-by arrangement (a new IMF telex), evidence of the action of creditor governments (refinancing of 1984 maturities and carry-over into 1984 of the 1983 Berne package) and indication by the World Bank that the new credits it would grant to Yugoslavia in 1984 would be higher than repayments by Yugoslavia to the World Bank during this same year.

Mr. Konte, a former lawyer of Ljubljanska Banka, now working on debt issues with the National Bank, and another member of the staff of the National Bank of Yugoslavia joined us for dinner. I had a brief separate discussion with Mr. Konte who intended to be back in Belgrade on the 15th. I told him that I would be in Belgrade on March 19-20 and would like to meet with Mr. Smole, Mr. Dumjovic and Mr. Koroceç. In addition, I mentioned the issue of parallel treatment of non-OECD official creditors. The discussion during the dinner was basically devoted to the current economic situation in Yugoslavia and to relations between the National Bank and commercial banks. There was not much new information. However, Mr. Konte mentioned that Mr. Çolanovic would soon retire from Yugobanka, that the idea of a merger between Yugobanka and Beogradska Banka was now abandoned and that the merger of Croatian banks was suffering further delay.

The meeting on the 13th started with my presentation of the outcome of IMF discussions. I covered recent economic developments, balance of payments projections, the content of the program, the action contemplated by friendly governments, and the envisaged timetable. Questions were raised concerning price developments, with reference to a possible wage-price spiral, the more so since elements of indexation seemed to have reappeared in wage determination, loss-making enterprises and balance of payments figures. There was a more extensive discussion of "errors and omissions" with Mr. Dobrich mentioning that he had been told by the National Bank of Yugoslavia that the administration of waivers of the 90-day repatriation rule would be tightened and that dinar credits would not be made available any more to exporters beyond the 90-day limit. Participants stressed the need to obtain from governments in Geneva an undertaking on the carry-over into 1984 of the 1983 Berne package and refinancing of maturities. I explained that the signing of the multilateral agreement on refinancing would take place after Board action, probably at the beginning of May. Mr. Dobrich said that there was no need to wait for the completion of the bilateral agreements but that Mr. Probst could send a telex to Manufacturers Hanover immediately after the signing of the multilateral agreement.

Mr. Dobrich then reported on the visit he had made to Belgrade, together with the three ICC Vice-Chairmen, on March 5-6. The Yugoslavs have concurred in the repayment period, grace period and spreads offered to them in January. But they have proposed several modifications to the loan agreement. First, a "legal advisor to the Federal Executive Council" raised the question again of the waiver of sovereign immunity, the competent jurisdictions and the right of set-off. Mr. Dobrich considered that it was basically a stance taken for domestic consumption since the Yugoslavs were perfectly aware that these conditions were essential. Second, the Yugoslavs wanted some clarifications of modifications of the financial conditions: an understanding that the claims of the subsidiaries abroad of Yugoslav banks, including LHB, will not be covered by the refinancing agreement but treated in the same way as in 1983; a limitation of the option offered to bankers to switch from the currency in which the initial loan was denominated to any other permitted currency (for the Yugoslavs, this option should be limited to a switch to the national currency of the lending bank and be based on a more precise definition of the exchange rate to be applied); a spreading over 1984 of the payment of the facility fee, which should not be paid totally, as in 1983, at the time of signing, but should be paid at the time the loans effectively mature; an application of the new interest rate by each individual Yugoslav bank only at the time when the 1984 maturity falls due and not at the time of signing; a reduction in the administrative costs (lawyers, printing, ICC meetings).

I then left the meeting to allow commercial banks to discuss between themselves the draft telex proposed by Manufacturers Hanover. I was told by Mr. Dobrich and Miss Mudd in the afternoon that the Yugoslav proposal had been accepted with two exceptions: insistence by the ICC members on solidarity between Yugoslav banks for the payment of interest; maintenance of the option offered to creditor banks to switch freely from one currency to another, including now, as suggested by Société Générale, a possible switch to ECU. Mr. Dobrich thought it should not stand in the way of an agreement with the Yugoslavs.

In private discussions with bankers at lunch, I mentioned the question of new credits to Yugoslavia in 1984. Interest was expressed concerning cofinancing with the World Bank and the EIB. On trade financing, a reference was made to the medium-term acceptance facility recently arranged by First National of Chicago for Hungary. However, Security Pacific Bank mentioned that the Yugoslavs had always resisted suggestions to use acceptance facilities and were not even using at present all the possibilities offered to them under the continuing credit facilities. I raised privately with Mr. Dobrich the issue of the negative pledge clause. He had told the Yugoslavs that it would be useful for them to have the possibility, if needed, to mobilize their gold, through a standing agreement on the negative pledge clause, but the Yugoslavs resisted the idea. I said we would discuss it again with the Yugoslavs but, in any case, in Mr. Dobrich's view, creditor banks should not be approached to that effect before effective signing of the refinancing agreement.

P. Mentré

cc: Mr. Whittome
Mr. Schmitt
Mr. Boorman
Mr. Hansen
Mr. Petersen

cc: HOS
CED

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1984 MAR 14 AM 9:48

ORIG: MR. WHITTOME
CC: MR. PAUL MENTRE

FROM: MR. JANKO SMOLE, THE FEDERAL EXECUTIVE COUNCIL
TO: MR ALAN WHITTOME, DIRECTOR,
INTERNATIONAL MONETARY FUND
TELEX: 64111
WASHINGTON, U. S. A.

CC: MR. POUL MENTRE, ADVISOR
INTERNATIONAL MONETARY FUND
TELEX: 64111
WASHINGTON, U. S. A.

V E R Y   U R G E N T
=====================

REYOURTELEGRAM OF MARCH 11 I WANT TO INFORM YOU THAT WE ACCEPT MEETINGS WITH MR. MENTRE. THE SUBJECT OF MEETINGS WILL BE: THE IMPLEMENTATION OF BERNE PACKAGE, PROJECTIONS OF EXPORT CREDITS TO BE AVAILABLE TO YUGOSLAVIA IN 1984 AND PROSPECTS FOR THE OTHER COMPONATS OF THE FINANCIAL PACKAGE.

MR. CVITAN DUJMOVIC, ASSISTANT OF THE FEDERAL SECRETARY OF FINANCE WILL BE THE HOST OF MR. MENTE. WE ARE PLANING THE MEETINGS FOR MR. MENTE WITH MESSRS: KLEMENCIC, KOROSEC AND ME.

WE ACCEPT WITH PLEASURE YOUR KIND INVITATION TO BREAKFEST ON MARCH 24 AT 08,15 AT THE HOTEL BEURIVAGE.
BEST REGARDS

JANKO SMOLE

Lyne
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c also probably a dinner a[illegible]
[illegible] 14/3

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VIA WUI??
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Connect Time : 202 seconds

Office Memorandum

To: Mr. Whittome
Mr. Schmitt

March 14, 1984

From: Jack Boorman

Subject: Yugoslavia - Draft Program Paper

I read this paper as an (still rather uninformed) observer. Let me list some general reactions.

1. The brief review of developments in 1983 may raise more questions than it answers: about monetary developments (velocity; nature of foreign exchange deposits and credit); imports (in national accounts, relative to production); inventory patterns. This may give rise to complaints from EDs about bringing programs to the Board before a consultation. These may be heightened by the sense that events generally did not unfold as expected last year.

2. To the extent there are complaints on the basis of the above, the pattern of drawings which allows SDR 280 million of the programmed SDR 370 million to be drawn before a review may be questioned.

3. The appraisal is mostly a repeat and summary of the text and the letter of intent. Will the Board not expect a more definitive judgement by the staff on the various elements of the program?

4. It is very difficult to accept the propostion that imports declined in 1983, and the paper reflects uncertainty on this point. It seems the preponderance of (admittedly weak) evidence supports the view that imports must have increased: industrial production went up; there was (reportedly) an accumulation of inventories; the real cost of financing was declining; and there would likely have been some speculative hoarding of imported goods because of the exchange rate adjustments.

If one accepts the view that the swing in capital flows and errors and omissions represents unrecorded imports, does it call into question the projected substantial improvement still required in the current account? Does it also raise questions about the necessity for such a rapid adjustment of real interest rates?

5. The staffs' view on the role and nature of foreign exchange deposits (and credit) is not clear. On the one hand, they are included in broad money, implying , I suppose, that they are a component of the monetary aggregate thought to be most closely related to nominal income and/or activity (p.5). At times, however, data for monetary growth are given excluding foreign exchange deposits (p. 15). Is all of this covered by the statement on top of p. 16 to the effect that the velocity/real interest rate relation seems to hold for both M2 including foreign exchange deposits and for the dinar component alone?

6. At two points in the text (p. 19 and p. 28) reference is made to a consultation between "the authorities and the Fund" on the basis of the study of the foreign exchange allocation system. Doesn't this imply that we would have to make the study available to the Board? Would it not be consistent with the letter of intent to say simply that the staff will employ the results of the study in presenting a report to the Board for its review of the program?

I have made more specific comments at various points in the text which can be discussed at your pleasure.

Office Memorandum

March 14, 1984

MEMORANDUM FOR FILES

Subject: Yugoslavia

I spoke to Mr. Mentré and later to Mr. Brau. I asked Brau to ensure that the next "Paris Club" meeting for Yugoslavia should be held between the date of the Board meeting, presently envisaged for the second half of April, and the signing of the commercial bank rescheduling presently foreseen for May 25. It is expected that the Paris Club will meet May 2-4 which would be a suitable opportunity.

L.A. Whittome

cc: Mr. Schmitt
Mr. Mentré
Mr. Boorman

Office Memorandum

To: Mr. Schmitt
Mr. Boorman
Mr. Hansen
Mr. Lewis
Mr. Petersen

March 14, 1984

From: L.A. Whittome

Subject: Yugoslavia--Staff Appraisal

I attach a hastily redrafted version of the staff appraisal. I have tried to include more policy judgements in it and have also in the process inevitably given it a more pessimistic tinge--I suspect that given past history this is not an unwise move.

Please do not take the new draft as one that should be accepted but rather subject it to stringent criticism and then come forward with whatever new version you think appropriate.

Attachment

REDRAFT
3/14/84

V. Staff Appraisal

The proposed program seeks to consolidate the improvement in the external current account in convertible currencies achieved in 1983, when the balance moved to a surplus of US$300 million from a deficit of US$1,600 million (about 3 percent of GSP recorded in 1982). It also seeks to avoid in 1984 an offsetting swing in the capital account which led to reserves falling by US$55 million during 1983. Errors and omissions alone swung from an inflow of US$660 million in 1982 to an outflow in 1983 of more than US$1,200 million. The program therefore places particular emphasis on improving the balance on capital account, while safeguarding the momentum of improvement in current transactions.

To the extent that imports may have been underrecorded in 1983 the negative swing in short-term capital flows will have been less and therefore the dimension of the problem will be less formidable. The staff believe that some underrecording of imports may have occurred but is unable to quantify this feeling.

The main element of this year's program is a sharp increase in interest rates. Forty percent of the gap between present rates and a target real interest rate is to be closed by May 1, 1984, and the rest in four additional steps by April 1, 1985. The first step will raise nominal interest rates on three-month dinar-denominated deposits for households from 12 percent to about 30 percent. It is expected that this move, combined with continuing restrictive financial policies will significantly reduce short-term capital inflows and allow external reserves to increase by US$500 million. The progressive attainment of this reserve target is made a performance criterion.

In the staff's view it would have been preferable given the foreign exchange constraint to have buttressed the balance of payments position by a more rapid move to positive real rates of interest. However, the heavily indebted position of most Yugoslav enterprises provided a powerful argument for a somewhat slower approach. The staff consider that the five-step move over the next 12 months should be compatible with the needed balance of payments outturn but would stress the importance of not allowing any administrative measures to weaken in any way the attraction of three month deposits to the general public and to enterprises.

A central feature of the 1983 stabilization program was a real depreciation of the exchange rate. By the end of the year it had reached a little more than 25 percent rather than the 30 percent originally targeted, and has since narrowed further to about 15 percent as the nominal rate was stabilized after the last test date in November. The real depreciation of the dinar is now to be restored in two steps to just under 25 percent by the end of June 1984, and to be held there by monthly adjustments in the nominal effective rate to offset inflation differentials.

The staff are not satisfied that the usual comparisons provide an entirely reliable indicator of the adequacy of the dinar exchange rate. Within a certain range it would be unwise to be dogmatic about the level of Yugoslav competitiveness. For this reason and because of the risk of fostering an explosive price situation the staff consider the very sharp improvement in competitivity that will have been recorded between the beginning of 1983 and mid-1984 to be compatible with the surplus on the current account in convertible currencies that is being sought.

Exchange rate action last year was supported by a tight monetary policy--the real money stock declined by 12 percent. Nevertheless, in response mainly to the aggressive depreciation of the exchange rate, the increase in retail prices accelerated from 31 percent during 1982 to 58 percent during 1983. However, a sharply declining real interest rate caused the velocity of circulation of broad money to increase rapidly, limiting the decline in real economic activity to only 1 percent. The assumption of no further increase in the income velocity of M2 is consistent with past patterns of the behavior of velocity as affected by changes in real rates of interest. The assumption is, however, necessarily crucial to an assessment of the adequacy of the proposed stance of monetary policy and it will need to be closely looked at during the course of the stand-by period and during the mid-term review. It is assumed that price inflation will moderate in 1984 to about 50 percent through the year. Credit limits have been specified which, on that assumption, will stabilize the real money stock at its end-1983 level. This should accommodate an increase of about 1 percent in economic activity, led by a continued recovery of exports.

Fiscal restraint helped substantially in releasing resources for external adjustment last year. There was a positive balance between revenue and expenditure despite a decline in public sector revenue of 5 percent in real terms. Both features are to be carried through into 1984. A minimum increase in the net claims of the public sector on the banking system is incorporated in the credit ceilings, as well as a limit on the increase in public sector revenue to 85 percent of the increase in retail prices. Expenditure cuts are to be concentrated on export subsidies. In addition, the growth in subsidies through Joint Reserve Funds, which are not included in the public sector will be limited to one half the rise in the retail price index.

Wage restraint made an important contribution to the adjustment process in 1983. Real wages in the socialized sector declined by more than 10 percent last year and by about 25 percent over the last four years. Further wage restraint in 1984 is to focus on loss-making enterprises. They are to limit the increase in their nominal wage payments to two thirds of the increase in the wage bill of the socialized sector in the republic or province in which they are domiciled. A similar but more stringent limit is placed on the wage payments per employee of illiquid enterprises until they are again current in their debt service payments. In this way the transfer of labor to the more competitive sectors of the economy is to be accelerated.

The growth in personal income derived from sources other than the socialized sector was greater in 1983 than had been anticipated. It is clear that incomes from small private agricultural plots and from those services which lie outside the socialized sector must have risen strongly and it is probable that there was a significant growth in the black economy. It is not clear how such incomes will move in 1984 but the thrust of the new measures affecting wages in loss-making and illiquid enterprises is in the opinion of the staff a much needed inducement to labor mobility which has been conspicuously difficult to achieve in the framework of Yugoslav conditions.

The staff agrees with the Yugoslav authorities that on balance the set of measures proposed is adequate to achieve the current account and reserve objectives in 1984. But the staff would stress that there are a number of areas where much remains to be done. The staff is not sure that all imports into Yugoslavia were fully reported last year; if not, then at least part of the capital outflow is more apparent than real. Failure to report imports may be associated with continuing inefficiencies in the foreign exchange allocation system. Indeed it seems well possible that the way in which the present foreign exchange allocation system works in practice is not conducive to an economically effective use of foreign exchange on a national basis. It is understandable that this is a difficult and controversial area but it is hoped that the closer study provided for in the letter of intent will establish a basis for further adjustments.

The staff also cannot now feel confident that the new measures affecting wages will prove to be either fully effective or fully adequate. The position on this issue will also need to be reviewed carefully in the mid-term review.

Lastly the staff would draw attention to the underlying assumption that the changes contemplated in real interest rates and continuing financial restraint will diminish the problems caused for monetary and balance of payments policy by the existence of foreign exchange accounts. This seems a reasonable assumption but it is again one that will need to be reviewed constantly.

Office Memorandum

March 13, 1984

MEMORANDUM FOR FILES

Subject: Yugoslavia

Mr. Mentré telephoned. In substance he reconfirmed his message of this morning. He added that the banks had refused to accept a Yugoslav request that would restrict the ability of the banks to shift the currency denominating rescheduled debt. The Yugoslavs wanted the banks either to keep to the same currency as before or to be able only to shift into their national currency. I now have the impression that the banks have not accepted any of Yugoslavia's requests. ? ?

The telex from the Managing Director to the Chairman of the ICC supporting a prolongation of the standstill needs to be received by March 22 for a reference to it will be included in the telex to be sent on March 23 by the ICC to all the 600 banks.

Lastly Mentré said there were some signs that some banks might extend new credits and that the new acceptance facility organized by Hungary was regarded as a reasonable precedent--only the Yugoslavs allegedly argued that the receipt of import credit by this means would not be constitutional.

Perhaps Mr. Boorman will let me have a draft telex not later than March 20.

L.A. Whittome

cc: Mr. Schmitt
Mr. Boorman

Office Memorandum

March 13, 1984

MEMORANDUM FOR FILES

Subject: Yugoslavia

The Paris Office telephoned this morning to relay a message that they had received from Mr. Mentré in London. He had said that the meeting of the ICC this morning had gone well. The commercial banks would send to the Yugoslavs their final proposals after they had heard from the Yugoslavs that the standstill and terms and conditions had been formally accepted. The ICC would circulate the relevant information to all the banks involved by March 23 and hope that the final signatures on the rescheduling could be obtained by May 20.

Mentré had said that the ICC would want from us around March 23 a telex supporting the prolongation of a standstill. The message did not specify the period involved though if my memory is correct it is until June 30. Perhaps Mr. Boorman can check this with Mr. Mentré and draft a message from the Managing Director to the Chairman of the ICC based on the precedent used last time.

Mentré had also said that the ICC would need the governments to certify that they would refinance debt maturities due in 1984 and authorize the carryover into 1984 of the Berne credits not used in 1983. Presumably this can only be done after the "Paris Club" meeting now thought to be scheduled for early May.

L.A. Whittome

L.A. Whittome

cc: Mr. Schmitt
Mr. Boorman

cc: CED

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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Mrs. G. Hofmann
National Bank of Yugoslavia
Belgrade, Yugoslavia

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cc: Mr. Polak

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At the end of our stay in Belgrade a set of four tables was left with Mr. Stamenkovic, so that the relevant authorities could fill in certain missing data and correct or revise data as required. The tables pertained to prices, personal incomes, the federal budget, and the public sector accounts. Because all tables for the Board paper will need to be completed by close of business on Wednesday March 14, I am asking Mr. Lewis to telephone your office Wednesday morning Washington time to obtain these data.

A copy of this telex is being sent to Mr. Stamenkovic.

Best regards.

Hans Schmitt

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TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): W.Lewis EXT.: 8863 DEPT.: EUR DATE: Mar. 13, 19

AUTHORIZED BY NAME (TYPE): H.O. Schmitt

AUTHORIZED BY NAME (TYPE):

(**)

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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Schmitt

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IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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cc: Mr. Polak

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1ST OF TWO

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Dear Mr. Klemencic,

The Managing Director has approved the draft letter of intent with the following changes in the letter itself and in the technical annexes, including correction of typographical errors:

I. <u>Letter of Intent</u>

p. 4. paragraph 6: line 7 should read: "adjustments to administered prices such as are now planned".

p.5. paragraph 8: in line 11 replace "imports" by "importers".

p.5. paragraph 9: in line 10 replace "from Yugoslavia" by "from inside and outside Yugoslavia".

p.6. paragraph 9: replace the first four lines on p.6 by: "August 31, 1984 before the review of the standby arrangement specified in paragraph 24, to help in defining any further measures that may be deemed necessary to improve the efficiency of the system."

p.6. paragraph 10: in line 2 replace "acticity" by

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TELEX NO.:

CABLE ADDRESS:

DRAFTED BY NAME (TYPE): L. Hansen

EXT.: 8872

DEPT.: EUR

DATE: Mar.12,1984

AUTHORIZED BY NAME (TYPE): H.O. Schmitt

AUTHORIZED BY NAME (TYPE):

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"activity".

p.6. paragraph 10: in line 6 capitalize the phrase "joint reserve funds".

p.6. paragraph 10: replace last sentence with the following sentence: "Greater selectivity will be required in the choice of enterprises to be supported, so as to help accelerate structural change".

p.6. paragraph 11: in the first line delete "financial".

p.7. paragraph 12: in lines 5 and 6 replace "last February" by "February 1983".

p.7. paragraph 13: in line 4 replace "dinar terms of comparable deposits abroad" by "dinar terms of deposits abroad of comparable maturity".

p. 12. paragraph 21: in line 10 replace "itensified" by "intensified".

p.14. paragraph 24: replace first full sentence on p. 14 by "They will consult with the Fund as soon as is

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practicable after September 1984, and in any case not later than November 30, 1984 in order to review developments under the program and to reach such understandings with the Fund as may be necessary, including such modifications of the performance criteria that may be appropriate."

II. Technical Annexes

Annex I, p. 2: In the table first column replace "June 1984" by "April 1984" and in the second column replace "May 1984" by "March 1984".

Annex III, section 2: in line 1 delete "overdue"

Annex III, p. 3, section 4: in line 5: after the word "in" insert "aggregate" and capitalize the phrase "joint reserve funds."

Annex VI: in line 3 replace "totals" by "totaled"

Annex VIII: replace first two sentences by "In 1984 disbursements on loans with original maturities of more than one year and up to and including 12 years will be

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limited to a maximum of USdollar 3.5 billion of which no more than USdollar 1.8 billion will be loans with original maturities of up to and including five years. Net drawings on short-term credits with an original maturity of up to and including one year will be limited to USdollar 0.5 billion."

Annex VIII: in line 7 after "National Bank" insert "of Yugoslavia"

Annex IX, section 3: in line 2 after "the banking system" insert "with an original maturity of up to and including one year."

With best personal regards.

Schmitt

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LIST OF TWO

Mr. Vlado Klemencic
Federal Secretary for Finance
Belgrade
Yugoslavia

The following message has also been sent to Mr. Makic.
Dear Mr. Klemencic:

Mr. Radovan Makic
Governor
National Bank of Yugoslavia
Belgrade
Yugoslavia

The following message has also been sent to Mr. Klemencic
Dear Mr. Makic:

INTERNATIONAL MONETARY FUND

March 12, 1984

TO : ~~Lynne~~ KAW

FROM: Anne

Mr. Buomberger called about the arrangements for March 23.

Mr. Whittome, Mr. Schmitt and Mr. Mentré will leave Geneva by train at 1:56 p.m. arriving at Berne at 3:38 p.m. They will be met by Mr. Faillettaz.

The meeting with Secretary Probst will be from 4:00 - 5:30 p.m. in conference room no. W240.

There is a train dep. Berne at 6:16 p.m. arr. Geneva at 7:58 p.m.

Please call Mr. Buomberger if you have any questions.

OK

cc: HOS

PM

Office Memorandum

To: Mr. de Groote
Mr. de Maulde
Mr. Erb
Mr. Finaish
Mr. Hirao
Mr. Joyce
Mr. Laske
Mr. Lovato
Mr. Polak
Mr. Senior
Mr. Tvedt
Mr. Wicks

March 12, 1984

From: L.A. Whittome

Subject: Meeting on Yugoslavia

A proposed draft agreement has been drawn up by the Yugoslav authorities and the Fund staff. The Managing Director has stated that he is prepared to put forward the draft agreement for the consideration of the Board. It is expected that the staff paper will be issued by March 23. Considering that the representatives of governments who have played a role in providing Yugoslavia with financial assistance will meet in Geneva on March 24, to consider the rescheduling of debt due to creditor governments which falls due during 1984 and the position with regard to likely new flows of finance, you may wish to be represented at a meeting on March 13 at 10.00 a.m. in Room 12-120B at which the main lines of the draft agreement will be described.

This memorandum is being also copied to Executive Directors representing countries not directly concerned in the March meetings.

cc: Mr. Alfidja
Mr. Donoso
Mr. Ismael
Mr. Kafka
Mr. Malhotra
Mr. Nimatallah
Mr. Prowse
Mr. Salehkhou
Mr. Sangare
Mr. Zhang
Mr. Van Houtven

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TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): L. Hansen EXT.: 8872 DEPT.: EUR DATE: Mar.12,1984

AUTHORIZED BY NAME (TYPE): H.O. Schmitt

AUTHORIZED BY NAME (TYPE):

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"activity".

p.6. paragraph 10: in line 6 capitalize the phrase "joint reserve funds".

p.6. paragraph 10: replace last sentence with the following sentence: "Greater selectivity will be required in the choice of enterprises to be supported, so as to help accelerate structural change".

p.6. paragraph 11: in the first line delete "financial".

p.7. paragraph 12: in lines 5 and 6 replace "last February" by "February 1983".

p.7. paragraph 13: in line 4 replace "dinar terms of comparable deposits abroad" by "dinar terms of deposits abroad of comparable maturity".

p. 12. paragraph 21: in line 10 replace "itensified" by "intensified".

p.14. paragraph 24: replace first full sentence on p. 14 by "They will consult with the Fund as soon as is

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practicable after September 1984, and in any case not later than November 30, 1984 in order to review developments under the program and to reach such understandings with the Fund as may be necessary, including such modifications of the performance criteria that may be appropriate."

II. <u>Technical Annexes</u>

Annex I, p. 2: In the table first column replace "June 1984" by "April 1984" and in the second column replace "May 1984" by "March 1984".

Annex III, section 2: in line 1 delete "overdue"

Annex III, p. 3, section 4: in line 5: after the word "in" insert "aggregate" and capitalize the phrase "joint reserve funds."

Annex VI: in line 3 replace "totals" by "totaled"

Annex VIII: replace first two sentences by "In 1984 disbursements on loans with original maturities of more than one year and up to and including 12 years will be

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limited to a maximum of USdollar 3.5 billion of which no more than USdollar 1.8 billion will be loans with original maturities of up to and including five years. Net drawings on short-term credits with an original maturity of up to and including one year will be limited to USdollar 0.5 billion."

Annex VIII: in line 7 after "National Bank" insert "of Yugoslavia"

Annex IX, section 3: in line 2 after "the banking system" insert "with an original maturity of up to and including one year."

With best personal regards.

Schmitt

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2. Use OCR-B210 sphere and set typewriter for DOUBLE SPACING - No other markings acceptable.

LIST OF TWO

Mr. Vlado Klemencic
Federal Secretary for Finance
Belgrade
Yugoslavia

Mr. Radovan Makic
Governor
National Bank of Yugoslavia
Belgrade
Yugoslavia

March 13,1984

Yugoslavia: Proposed Program for 1984

The main aims of the program are:

(i) a further improvement in the current account balance with the convertible currency area from US$300 million in 1983 to US$500 million in 1984;

(ii) an increase in external reserves by US$500 million during 1984, which was made a performance test;

(iii) a modest revival of economic growth; and

(iv) a reduction in the rate of increase of prices from nearly 60 percent during 1983 to 50 percent during 1984.

The main features of the program designed to achieve these objectives are:

(i) a sharp increase in interest rates. Forty percent of the gap between present rates and a target real interest rate is to be closed by May 1, 1984, and the rest in four equal steps by March 31, 1985;

(ii) restoration by end June 1984 of the real depreciation of the exchange rate from the beginning of 1983 to the 25 percent obtained by the end of the year (compared with the present level of around 15 percent) and stabilization of the real rate thereafter;

(iii) maintenance of a tight monetary policy; the real money stock (M2) declined by 12 percent during 1983 and is forecast to be maintained at the end-1983 level during 1984;

(iv) continuation of fiscal restraint by limiting the growth of public sector revenue, and at the same time securing a surplus in the public sector accounts of a similar magnitude in relation to revenue as was obtained in 1983;

(v) a reduction in subsidies, especially subsidies to ailing enterprises through the Joint Reserve Funds, and subsidies to exporters through the Community of Interest for ~~External Economic~~ Relations;
Foreign Economic

(vi) continuation of wage restraint following a decline in real wages in the socialized sector of more than 10 percent in 1983. Additional wage restraint is deemed necessary both to break the inflationary cycle and to foster further structural adjustment. For the latter purpose, the restraint will focus in 1984 on loss-making enterprises; and

(vii) a lifting of the price freeze by May 1, 1984, with an increase in the percentage of industrial goods free of price control to at least 55 percent and compared with 45 percent before the introduction of the price freeze. Further, administered prices, particularly for energy, will be adjusted periodically to keep up with the general price level.

March 12, 1984

LAW:

Kerry Morrell called after you had left tonight to ask if he could attend the meeting on Yugoslavia at 10:00 a.m. on March 13. (the Australians have expressed a particular interest in being kept informed on Yugoslavia). I told him I was sure that the Executive Directors to whom the memorandum had been copied were quite free to attend the meeting if they wished; the fact that the memorandum had been addressed to a particular group of Executive Directors arose from the wish of the countries that those Directors represented to be briefed well before the Geneva meeting.

He also asked whether it was the Managing Director's meeting or your meeting, and I said I thought it was your meeting, though no doubt Mr. Schmitt, as head of mission, would do much of the detailed briefing.

We left it that he will attend unless he hears from you before the meeting of some reason why he should not.

Brian B

Office Memorandum

To: Mr. de Groote
Mr. de Maulde
Mr. Erb
Mr. Finaish
Mr. Hirao
Mr. Joyce
Mr. Laske
Mr. Lovato
Mr. Polak
Mr. Senior
Mr. Tvedt
Mr. Wicks

March 12, 1984

From: L.A. Whittome

Subject: Meeting on Yugoslavia

A proposed draft agreement has been drawn up by the Yugoslav authorities and the Fund staff. The Managing Director has stated that he is prepared to put forward the draft agreement for the consideration of the Board. It is expected that the staff paper will be issued by March 23. Considering that the representatives of governments who have played a role in providing Yugoslavia with financial assistance will meet in Geneva on March 24, to consider the rescheduling of debt due to creditor governments which falls due during 1984 and the position with regard to likely new flows of finance, you may wish to be represented at a meeting on March 13 at 10.00 a.m. in Room 12-120B at which the main lines of the draft agreement will be described.

This memorandum is being also copied to Executive Directors representing countries not directly concerned in the March meetings.

cc: Mr. Alfidja
Mr. Donoso
Mr. Ismael
Mr. Kafka
Mr. Malhotra
Mr. Nimatallah
Mr. Prowse
Mr. Salehkhou
Mr. Sangare
Mr. Zhang
Mr. Van Houtven

PH
JB
LH
BR
Pol F

Mr. L.A. Whittome
Director
European Department
IMF
Washington, D.C.

With the Compliments of the Embassy of Switzerland

P. Buomberger

Peter Buomberger
Counselor, Financial Affairs

Washington, D.C.,
March 8, 1984

Re: Financial Assistance to Yugoslavia

Dear Sir,

Over a month ago, I had written to you to suggest two dates in the latter part of February for the meeting of the coordinating group of the friends of Yugoslavia with the proviso that it would take place only if there was prior agreement between the IMF staff and Yugoslavia on the contents of the letter of intent.

As you know, it appeared later on that this schedule was somewhat too optimistic and the meeting had to be postponed once more.

However, I have now been informed that the recent IMF staff mission has returned to Washington with a proposed agreement. Therefore, on the assumption that the agreement will be endorsed, I should like to suggest to you the date of Saturday, March 24, for the meeting of the coordinating group. It would take place in Geneva in the same building as last November, that is at 9-11 Rue de Varembé. The meeting would start at 10.15 a.m. sharp and last only one day, but as late as necessary in the afternoon or in the evening.

You will find enclosed a draft agenda.

./.

I would appreciate it if you could confirm your participation to our local Embassy.

May I advise you to make hotel reservations in Geneva for the night from the 24th to the 25th of March just in case the meeting would end too late to allow participants to fly back home on the same day.

Thank you very much for your cooperation.

Yours sincerely,

R. Probst
State Secretary
Federal Department
of Foreign Affairs

ANNEX

Meeting of the coordinating group on Yugoslavia

draft annotated agenda

1. Report on discussions held in the two working groups (Paris meetings, January 11 and 12, 1984)

   A. Group 1 (debt issues): Refinancing of medium- and long-term maturities guaranteed by or falling due to governments in 1984, contemplated timetable (representatives of France)

   B. Group 2: Carry-over into 1984 of the 1983 Berne package, assessment of Yugoslavia's balance of payments and reserve needs (Fund representatives) Fd

2. Status of negotiations between the Fund and Yugoslavia (Yugoslav and Fund representatives) Fd

   A. Balance of payments 1984

   B. Recent economic developments and outlook for 1984

   C. Letter of intent

   D. Timetable contemplated for board action

./.

3. Medium-term prospects

   (Yugoslavia, Fund, and World Bank representatives)

   A. Medium-term outlook

   B. Impact of the adjustment on enterprises and sectors, investment priorities

   C. Management of external finance and of foreign debt

4. Non-governmental financial flows

   A. World Bank lending, including possible cofinancing with commercial banks (Yugoslav and World Bank representatives)

   B. Lending by European Institutions including possible cofinancing with commercial banks (Yugoslav and representatives of EC countries)

   C. Status of discussion with commercial banks: Refinancing of medium- and long-term maturities falling due to banks in 1984, additional flows, short-term credits (Yugoslav representatives and IMF) P/M

5. Export credits

   (Governments' representatives)

./.

- Maintenance or expansion of existing short-term credit lines or guarantees in 1984
- Projections of medium- and long-term export credits for Yugoslavia in 1984, beyond the carry-over of the Berne package, with the following breakdown:

A. Capital goods:

(I) Export credits under arrangements signed prior to the Berne agreement

(II) Export credits under arrangements signed in 1983

(III) Export credits under arrangements to be signed in 1984

B. Commodities

C. Intermediate goods, raw materials, spare parts

These projections and possible terms and conditions should be discussed in relation with balance of payments prospects.

(c: CED)

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Mr. Stojan Stamenkovic
Office of the Prime Minister
Federal Executive Council
Belgrade, Yugoslavia

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~~cc: Mr. Polak~~

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Today I have sent the following telex to Mrs. Hofmann of the National Bank of Yugoslavia:

Quote: At the end of our stay in Belgrade a set of four tables was left with Mr. Stamenkovic, so that the relevant authorities could fill in certain missing data and correct or revise data as required. The tables pertained to prices, personal incomes, the federal budget, and the public sector accounts. Because all tables for the Board paper will need to be completed by close of business on Wednesday March 14, I am asking Mr. Lewis to call your office Wednesday morning Washington time to obtain these data. Unquote.

Best regards.

Hans Schmitt

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DRAFTED BY NAME (TYPE): W. Lewis EXT.: 8863 DEPT.: EUR DATE: March 13, 19

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March 13,1984

Yugoslavia: Proposed Program for 1984

The main aims of the program are:

(i) a further improvement in the current account balance with the convertible currency area from US$300 million in 1983 to US$500 million in 1984;

(ii) an increase in external reserves by US$500 million during 1984, which was made a performance test;

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(iv) a reduction in the rate of increase of prices from nearly 60 percent during 1983 to 50 percent during 1984.

The main features of the program designed to achieve these objectives are:

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(iv) continuation of fiscal restraint by limiting the growth of public sector revenue, and at the same time securing a surplus in the public sector accounts of a similar magnitude in relation to revenue as was obtained in 1983;

(v) a reduction in subsidies, especially subsidies to ailing enterprises through the Joint Reserve Funds, and subsidies to exporters through the Community of Interest for Foreign Economic Relations;

(vi) continuation of wage restraint following a decline in real wages in the socialized sector of more than 10 percent in 1983. Additional wage restraint is deemed necessary both to break the inflationary cycle and to foster further structural adjustment. For the latter purpose, the restraint will focus in 1984 on loss-making enterprises; and

(vii) a lifting of the price freeze by May 1, 1984, with an increase in the percentage of industrial goods free of price control to at least 55 percent and compared with 45 percent before the introduction of the price freeze. Further, administered prices, particularly for energy, will be adjusted periodically to keep up with the general price level.

Table 1. Yugoslavia: Balance of Payments with the Convertible Currency Area, 1982-84 1/

(In millions of U.S. dollars)

	1982	1983 Estimate	1984 Staff Proj.
Exports, f.o.b.	5,526	6,271	7,000
Imports, c.i.f.	9,069	8,069	8,700
Trade balance	-3,543	-1,798	-1,700
Workers' remittances (net)	1,663	1,610	1,550
Tourism (net)	704	875	1,000
Interest payments (net)	-1,692	-1,489	-1,650
Other (net)	1,266	1,101	1,300
Services (net)	1,941	2,097	2,200
Current balance	-1,602	299	500
Medium- and long-term capital	-126	1,140	250
Loans received (net)	51	1,297	450
Drawings	(1,815)	(3,660)	(3,195)
Repayments	(-1,764)	(-2,363)	(-2,745)
Loans extended (net)	-177	-157	-200
Short-term capital through the banking system	-506	-670	--
Other short-term capital, errors and omissions	659	-1,234	-260
Overall balance	-1,575	-465	490
Use of Fund credit	563	410	10
Purchases	608	590	294
Repurchases	45	180	284
Reserve movements (increase -)	1,012	55	-500

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

1/ Calculated on the basis of statistical exchange rates of currencies to the U.S. dollar which may result in significant over- or underestimation of balance of payments flows, depending on currency composition and actual movement of currencies against the dollar. Staff calculations suggest that trade flows are underestimated by some 2 percent in 1982 and may be overestimated by a similar amount in 1983.

3/12/84

Table 2. Yugoslavia: Drawings on Medium- and Long-term Debt in Convertible Currency by Creditor

(In millions of U.S. dollars)

	1983 Estimate	1984 Projection
Government packages	796	1,340
Berne	796	390
Refinancing	(304)	(3)
New financial credits	(132)	(40)
Suppliers' credits	(360)	(347)
Geneva	...	850
Refinancing	(...)	(700)
Suppliers' credits	(...)	(150)
Commercial bank package	1,550	1,200
Refinancing	950	1,100
New financing	600	100
IBRD	280	505
Regular facilities	260	250
SAL	20	255
Other multilateral lenders: IFC, EIB and Eurofima	60	50
Suppliers' credits outside Government packages	974	200
Subtotal	3,660	3,195
IMF	590	294 1/
Total	4,250	3,489

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

1/ Total projected purchases under the stand-by arrangement are equivalent to SDR 370 million, but the final purchase from the Fund will not take place until February 1985.

Table 3. Yugoslavia: Repurchase Obligations and Charges Payable to the IMF

(In millions of SDRs)

	Repurchases			Charges
	Total	Present obligations 1/	Proposed stand-by	
1984	269.31	269.31	--	205.3
1985	322.15	322.15	--	204.1
1986	362.50	362.50	--	173.7
1987	385.76	361.38	24.38	132.5
1988	444.37	322.50	121.87	86.9
1989	360.33	239.46	120.63	42.3
1990	155.39	97.88	57.51	13.2
1991	40.01	--	40.01	2.7
1992	5.63	--	5.63	0.2
Total	2,345.18	1,975.18	370.00	860.9

Source: Fund staff estimates.

1/ Including repurchases under the Compensatory Financing Facility of SDR 103.9 million in 1984 and SDR 17.3 million in 1985.

3/12/84

INTERNATIONAL MONETARY FUND

MD

I support the approach outlined and recommend that you approve.

cc: ADM
SEC

William B. Dale

Deputy Managing Director

Office Memorandum

March 12, 1984

To: The Managing Director
The Deputy Managing Director

From: L. A. Whittome

Subject: Portugal--Stand-By Review

As outlined in Mrs. Ter-Minassian's back-to-office report of February 15, 1984, a staff mission visited Lisbon in early February to review the stand-by arrangement with Portugal approved in October 1983 for the period to end-February 1985. The main stumbling block to completing the review at that time was a lack of adequate information on the past and prospective borrowing requirements of the major public sector enterprises. This meant that it was not possible to reach agreement on the details of the policy stance for 1984, and in particular on the sub-ceiling on domestic credit to the consolidated public sector. Accordingly, the mission requested that the relevant information be collected as quickly as possible and presented to the staff in Washington.

A technical team from Portugal visited Washington last week to report on the progress to date. Estimates for 1983 and projections for 1984 were presented for the accounts of 20 of the 24 major public enterprises. The remaining four major public enterprises have important operations with the Government's Supply Fund in relation to the subsidization of essential commodities. The Portuguese representatives believed that these transactions will have been disentangled and identified within the next few days, so opening the way for a consolidation of the accounts of the public sector and their integration into the monetary program.

The Portuguese authorities have accepted that policies in 1984 will need to be geared to reducing the current account deficit to the US$1 1/4 billion envisaged in the stand-by program, which they believe could be financed without a significant further loss in reserves. They recognize that an important contribution to this adjustment should come from a reduction in the borrowing requirements of the consolidated public sector relative to GDP. Once the staff is informed that the statistical problems with respect to the public enterprises referred to above are resolved, there would appear to be a case for resuming discussions on the review. Accordingly, I would propose that a mission consisting of Mrs. Ter-Minassian (EUR), Messrs. Lachman (WHD), Mr. Spitaeller (EUR), Catsambas (EUR) and a secretary should visit Lisbon for two to three weeks as soon as we have been notified that the statistical problems have been resolved, which hopefully will be early next week. If the mission's discussions continue into April, Mr. Kalter (ETR), who will be in Europe in connection with the international banking mission, may join the team in Lisbon. The mission would review the program within the framework of the briefing paper approved by the Management in January 1984. The only modifications proposed to that briefing paper are that, because of this slippage of time, ceilings be set for May and July (rather than for March and June as previously planned) and that the second Board review of the program be scheduled for September 1984 (rather than July 1984).

Attachment

cc: Mr. Tenconi
Mr. Mookerjee
Mrs. Ter-Minassian
Mr. Collins

cc: ADM) Upon approval
SEC)

	Mission Chief	Own Dept.	Other Dept.	Secretary	Total
Original number of trips approved on the schedule for EUR 1/	21	67	9	17	114
Net change on account of previous amendments	4	13	4	3	24
Change on account of this amendment	1	2	1	1	5
Revised total	26	82	14	21	143

1/ Figures include December.

→ MD 3/13

MAR 12 1984

Office Memorandum

March 12, 1984

To: The Managing Director
The Deputy Managing Director

From: L. A. Whittome LAW

Subject: Portugal--Stand-By Review

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Attachment

cc: Mr. Tenconi
Mr. Mookerjee
Mrs. Ter-Minassian
Mr. Collins

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1/ Figures include December.

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MR. J. SMOLE
MEMBER OF THE FEDERAL EXECUTIVE COUNCIL
BELGRADE
YUGOSLAVIA

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PURSUANT TO YOUR TELEPHONE CONVERSATION WITH MR. MENTRE ON MARCH 7 I SHARE YOUR VIEWS THAT SOME ADVANCE PREPARATION OF THE GENEVA MEETING COULD BE OF HELP. MR. MENTRE PROPOSES TO BE IN BELGRADE ON MARCH 19, ARRIVING IN BELGRADE AT 1205 ON LH 360, LEAVING ON MARCH 20 AT 1255 ON LH 361.

I SUGGEST THAT HE SHOULD BRING HIMSELF UP TO DATE ON THE IMPLEMENTATION OF THE BERNE PACKAGE, PROJECTIONS OF EXPORT CREDITS TO BE MADE AVAILABLE TO YUGOSLAVIA IN 1984, AND PROSPECTS FOR THE OTHER COMPONENTS OF THE FINANCIAL PACKAGE. I WOULD ALSO SUGGEST THAT WE HAVE IN GENEVA A BREAKFAST ON MARCH 24 AT 0815 AT THE HOTEL BEAU RIVAGE FOR THE YUGOSLAV DELEGATION AND THE FUND REPRESENTATIVES (MESSRS. SCHMITT, MENTRE, AND MYSELF).

BEST REGARDS

WHITTOME

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C TELEX NO.: CABLE ADDRESS:

D DRAFTED BY NAME (TYPE): LAWHITTOME EXT.: 73074 DEPT.: EUR DATE: 3/9/84

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

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G [signature]

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WASHINGTON, D. C. 20431

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~~1. MR. J. SMOLE~~
~~MEMBER OF THE FEDERAL EXECUTIVE COUNCIL~~
~~BELGRADE~~
~~YUGOSLAVIA~~

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2. MRS. HOFFMAN
NATIONAL BANK OF YUGOSLAVIA
BELGRADE
YUGOSLAVIA

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Mr Whittome

Office Memorandum

March 9, 1984

MEMORANDUM FOR FILES

Subject: Yugoslavia--Relations with the World Bank

On March 9 I met with Mr. Kaps, Senior Loan Officer, World Bank, to prepare for the Geneva meeting.

He told me that on February 29 he met with Mr. Dobrich to give him a presentation of World Bank projects which might give rise to co-financing with commercial banks (parallel loans or new Type "B" loans). Mr. Dobrich said that he would forward to ICC members the attached documents with a view to having them discussed by the ICC at a later stage.

Mr. Kaps was not aware of any possible co-financing with EIB outside of projects in which the World Bank was itself involved but he would check with Mr. Hartwig, EIB, before the Geneva meeting.

I said that we intended to make a presentation in Geneva of the medium-term outlook of Yugoslavia in financial terms. He said he would not have much to add on SALs to what he said in Paris in January since the timetable had slipped. Mr. Lari, Director, Country Programs Department, World Bank, will be in Belgrade from March 22-27 to assess the situation but a SAL mission will not be in Yugoslavia before the second half of May. Mr. Kaps would be, however, in a position to address some sectoral problems (energy, agriculture) and criteria for the selection of investments. In addition, he would give a presentation of projects eligible for co-financing, with governments, with specific emphasis on the technical assistance project for industrial energy conservation which might be eligible for governmental grants from countries such as Sweden or Italy. He confirmed that the World Bank concurred in the foreign exchange allocation study as described in the letter of intent. He was totally open on the degree and the nature of commercial bank involvement in this mutual endeavor.

P.M.

Paul Mentré

cc: HOS
PM

cc: Mr. Whittome
Mr. Schmitt
Mr. Boorman
Mr. Hansen
Mr. Petersen

For Geneva we shall need to know gross annual project loans by IBRD & net repayments due to IBRD p.a. to 1990 & something about their thinking (cont) on SALs

9/3

cc: HOS PM CED

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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MR. J. SMOLE
MEMBER OF THE FEDERAL EXECUTIVE COUNCIL
BELGRADE
YUGOSLAVIA

DISTRIBUTION

START TEXT HERE

PURSUANT TO YOUR TELEPHONE CONVERSATION WITH MR. MENTRE ON MARCH 7 I SHARE YOUR VIEWS THAT SOME ADVANCE PREPARATION OF THE GENEVA MEETING COULD BE OF HELP. MR. MENTRE PROPOSES TO BE IN BELGRADE ON MARCH 19, ARRIVING IN BELGRADE AT 1205 ON LH 360, LEAVING ON MARCH 20 AT 1255 ON LH 361.

I SUGGEST THAT HE SHOULD BRING HIMSELF UP TO DATE ON THE IMPLEMENTATION OF THE BERNE PACKAGE, PROJECTIONS OF EXPORT CREDITS TO BE MADE AVAILABLE TO YUGOSLAVIA IN 1984, AND PROSPECTS FOR THE OTHER COMPONENTS OF THE FINANCIAL PACKAGE. I WOULD ALSO SUGGEST THAT WE HAVE IN GENEVA A BREAKFAST ON MARCH 24 AT 0815 AT THE HOTEL BEAU RIVAGE FOR THE YUGOSLAV DELEGATION AND THE FUND REPRESENTATIVES (MESSRS. SCHMITT, MENTRE, AND MYSELF).

BEST REGARDS
WHITTOME

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TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): LAWHITTOME EXT.: 73074 DEPT.: EUR DATE: 3/9/84

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

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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FC 48 REV 1 11-18-82

Office Memorandum

March 8, 1984

MEMORANDUM FOR FILES

Subject: Yugoslavia

Mr. Buomberger of the Swiss Embassy said that State Secretary Probst sent a message saying that he would welcome an opportunity of a discussion with me before the meeting in Geneva on March 24. Unfortunately Probst was not able to leave Berne on March 23 and therefore asked whether I could meet him in Berne on the afternoon of that day. Mr. Buomberger said that there was a train leaving Geneva at 1.56 p.m. which would arrive at Berne at 3.38 p.m. and Probst could make himself free between 4-5.30 p.m. Hopefully this would allow me to get back to Geneva that evening in order to have preliminary meetings with delegations.

L.A. Whittome

cc: Mr. Schmitt
Mr. Mentré
CED

Mr. Schmitt
file

Office Memorandum

March 7, 1984

cc: HOs should you not tell C. ...?

27/3

MEMORANDUM FOR FILES

Subject: Yugoslavia: Meeting on External Debt Reporting: February 28

I met with Messrs. Bosujakovic, Sumkoski, and Milovanovic, of the NBY's statistical office, to discuss issues relating to external debt reporting. Mr. Smiljanić was also present.

1. Mr. Milovanovic explained the operation of the computerized external debt reporting system installed in 1983. The information is very similar to that reported by Mr. Trucco of the IBRD (Attachment 1), so it is not repeated here. I was also given copies of reporting forms and a list of the system's standard output tables.

2. My general impression is that the system provides timely data of a generally good quality as far as aggregate values are concerned, but it lacks analytical tables. The IBRD has similar views (Attachments 1 & 2). I am assured that it will be able to provide more data than is usually generated--for example, a very detailed breakdown of interest payments by type of interest, i.e., various floating rates and fixed rates, as well as projections of interest payments, based on various hypothetical interest rate scenarios. Also, from January 1, the system will be able to provide debt data at current exchange rates; previously all debt was calculated at statistical exchange rates.

3. The system's only major drawback is that at present it cannot provide debt data by type of creditor. Mr. Smiljanić emphasized that the authorities are aware of the problem and will correct it. The NBY will send questionnaires to commercial banks in the next two months, asking them to identify loans by type of creditor. This will be compared with the data obtained from the PMM exercise, and the corrected data will be coded in. He stressed that this would take time; data on 6,000-7,000 individual loans need to be updated, and the reporting forms and software need to be changed. Mr. Milovanovic confirmed that this would not present technical problems, and a satisfactory debt reporting system should be in place by year-end.

4. The question remains of the quality of the system's input. PMM found several cases of incorrect reporting by commercial banks, and occasionally a seeming reluctance by banks to report their external debt affairs fully to the NBY. (Problems mainly involve classifying of types of credit; the amounts are generally correct.) In this regard, it is a little odd that the NBY is not involved in the SDK's debt reconciliation process. However, provided the SDK supplies all the relevant information to the NBY, and the NBY makes the necessary effort to use it, it should be possible to obtain good quality historical data. The problem will then be reduced substantially to ensure that current data is entered correctly.

Arne B. Petersen
Trade & Payments Division, ETR

cc: Messrs. Mentré/Schmitt/Hansen/Lewis

whether they constitute external public debt or non-guaranteed private sector debt (debt of the social sector). These forms represent the basic record fro which debt aggregates are generated. For each debt contracted by a Yugoslavian resident, the following forms most be filled out:

(a) Basic Data (Form KZ2): Information on terms, amounts, currencies, debtor and creditor names, purpose and type of credit are documented in this form. As can be seen on Annex III this form, which is planned after IBRD reporting forms, is comprehensive in scope and even allows for the storage of spreads under variable interest rates options.

(b) Disbursements (Form KZ3): Schedule of planned and actual disbursements amounts along with the currency and accompanying dates are recorded in this form (see Annex IV).

(c) Debt Service (Form KZ4): Schedule of planned and actual principal and interest payments are recorded. There are provisions for recording the debt service schedule based on debt outstanding and disbursed as well as on total debt outstanding including undisbursed (see Annex V).

(d) Modifications to Basic Data (Form KZ5): This form is used to introduce changes to previously reported basic data (see Annex VI).

(e) Modifications to Transaction and Schedule Data (Form KZ6) This form is used to effect changes to scheduled or actual disbursement, debt service, and stock figures (see Annex VII).

B. Debt Display

24. Annex VIII details an example of a computer generated loan stemming from the loans described on paragraph 23. The basic data information as well as the scheduled and transaction data are unified in a single presentation.

C. Computer System

25. The information required in the debt registration forms is keyed into a Honeywell 6 preprocessor and is then fed into a Honeywell 64 for basic, associated, and regional banks or a Honeywell 66 for NBY depending as to where the borrower is located. Officials at NBY indicated that data keyed in at the regional bank is transmitted to NBY within five days after the close of month; however, based on the trial runs of March and April, the lag seems to average around twenty days.

26. As is typical of first generation computerized debt tracking systems, the philosophy seems to be one of storing as much data as possible and to compute as few conversions as possible. This is certainly true of the design at NBY. They have opted to store debt service schedules even though these could be generated by financial utilities given the terms of the agreements. This procedure requires a greater storage capacity than one i

which the projections are generated in the active memory area through the use of financial utilities.

D. Output Reports

27. Information provided by NBY officials indicates that there are a fixed number of output reports and indebtedness variables. Seventeen possible types of output reports exist divided equally between those presenting the debt from source of funds and end-user of funds, (see Annex IX). Currency area breakdown is included under the source of funds breakdown; in addition, there is an automatic breakdowns between ST and MLT debt according to contractual maturity. The reports are of a fixed multiple breakdown type and provide sub-totals for each of the sub-breakdowns with a maximum possible of five breakdowns in any one table in addition to the overall total.

28. The indebtedness variables represent a combination of actual stock and flow data as well as debt service projections. As with the output report breakdowns, these are available for each of the sub-breakdowns and for the total. These variables can be shown either for a particular month (usually the month of the as-of-date of the table) or for the period between January 1 and the as-of-date of the table. The indebtedness variables are as follow: (a) amount committed during the period; (b) debt outstanding and disbursed and undisbursed debt outstanding at the beginning of the period; (c) disbursement, amortization, and interest payments during the period; and (d) debt outstanding and disbursed and undisbursed debt outstanding at the end of the period. Projections of amortization and interest payments can be shown on an annual, quarterly or monthly basis. In addition, monthly projections can be aggregated into those that fall due during the 1st half and those that fall due during the 2nd half of the calendar year.

29. Examination of the output reports shown on Annex X suggest that the following items are missing:

(a) Variables:

- principal and interest in arrears
- cancellation of undisbursed debt
- write-off of disbursed debt
- disbursement projections based on undisbursed debt outstanding.

(b) Reports:

- data lists; one line summary of the principal characteristics of a loan
- average terms of new commitments, i.e. maturity, grace period, weighted interest rate, etc.
- debt classified according to type of flow
- debt classified according to type of interest, i.e. fixed or variable.
- debt classified according to type of creditor

IMF OFFICIAL CABLE

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INFUND 610712F

INTERFUND PARIS MARCH 7 1984

INTERFUND
WASHINGTON DC

FOR MR WHITTOME) URGENT
)
CC: MR. SCHMITT) FOR IMMEDIATE DELIVERY PLEASE
CENTRAL EUROPEAN DIVISION)

MR. GUETTA (HANDED IN PARIS)

1. I HAD A CALL THIS MORNING FROM MR. SMOLE WHO WANTED TO MENTION TO ME SEVERAL ISSUES.

A. HE WOULD LIKE TO DISCUSS THE EXPORT CREDIT PACKAGE IN ADVANCE OF THE GENEVA MEETING. WE TENTATIVELY AGREED THAT I COULD PAY A VISIT TO BELGRADE ON MARCH 19-20. I SAID THAT, IN ADDITION, A MEETING BETWEEN YOURSELF AND THE YUGOSLAV DELEGATION IN GENEVA WOULD BE APPROPRIATE, AND WE TENTATIVELY AGREED ON BREAKFAST IN GENEVA ON THE 24TH.

B. DOBRICH WAS IN BELGRADE TOGETHER WITH THE VICE PRESIDENT OF THE ICC. ACCORDING TO SMOLE, THE YUGOSLAVS HAVE CONCURRED IN THE 1-5/8 PERCENT SPREAD, BUT SPREADS ON NON-DOLLAR CURRENCIES WILL BE REVIEWED. THEY AGREED THAT IT WAS NECESSARY TO EXTEND TO JUNE THE STAND-STILL PERIOD, IN VIEW NOTABLY OF DELAYS IN THE RECONCILIATION PROCESS. THE ICC WILL MEET IN LONDON ON MARCH 12-13 AND MR SMOLE SAID HE THOUGHT THAT MY PRESENCE WOULD BE USEFUL. I SAID I WOULD ASSESS THE SITUATION WITH YOU, AND DOBRICH, TOMORROW IN WASHINGTON.

C. THE AGREEMENT REACHED WITH THE MISSION HAS BEEN ENDORSED BY THE ''GOVERNMENT'', BUT IT IS ALSO NECESSARY TO GET THE CONCURRENCE OF THE REPUBLICS. MR SMOLE SAID THAT, IN CONFORMITY WITH WHAT WAS PROMISED TO MR SCHMITT, EFFECTIVE SIGNING WILL TAKE PLACE AROUND MID-MARCH AND ANYWAY BEFORE THE GENEVA MEETING.

2. MR FAILLETAZ CALLED ME TO AGREE ON THE AGENDA HE IS SENDING

IMF OFFICIAL CABLE

TO GOVERNMENTS TOGETHER WITH AN INVITATION TO THE MARCH 24 GNEVA MEETING. COMPARED TO MY SUGGESTED AGENDA (SEE MY TELEX OF FEBRUARY 14), HE INTENDED TO DELETE IN POINT 5 THE PARAGRAPH BEFORE (A) AND THE CONTENT OF SUB-PARAGRAPHS (B) AND (C) TO AVOID CONVEYING TOO PRECISELY THE IMPRESSION OF A PLEDGING SESSION. I SUGGESTED THAT A SENTENCE BE ADDED TO TAKE INTO ACCOUNT YUGOSLAVIA'S BALANCE OF PAYMENTS REQUIREMENTS IN DETERMINING EXPORT CREDITS. THE ONLY PART OF THE PACKAGE ON WHICH MORE PRECISIONS COULD BE OF HELP IS EIB. I COULD CONTEMPLATE PAYING A VISIT TO THEM. MR FAILLETTAZ SAID THAT MR PROBST COULD NOT BE IN GENEVA ON THE 23RD AND SUGGESTED THAT I STOP IN BERNE ON THE 23RD ON MY WAY TO GENEVA.

3. MR GUETTA WAS IN CONTACT WITH MR JURGENSEN ON FUTURE TIMING OF GROUP 1 AND, POSSIBLY, GROUP 2. MR JURGENSEN SAID HE WAS CONEEMPLATING A MEETING ON YUGOSLAVIA AT THE TIME OF THE NEXT PARIS CLUB ROUND, EITHER IN THE WEEK STARTING APRIL 16 OR STARTING APRIL 23. THIS INFORMATION MIGHT BE USEFUL IN DETERMINING THE TIMETABLE FOR BOARD ACTION.

REGARDS,

MENTRE

INTERFUND PARIS

INFUND 610712F

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CONNECT TIME : 484 SECONDS

INTERNATIONAL MONETARY FUND

March 7, 1985 MAR 7 1984

cc: HOS
CED

TO : THE MANAGING DIRECTOR

FROM: William B. Dale WBD

Subject: Yugoslavia--UFR--Letter of Intent (back-to office)

This is, necessarily a very detailed and complex program. I believe it should do the trick. I recommend approval.

JL
March 10. 84

Office Memorandum

To: The Managing Director
The Deputy Managing Director

March 6, 1984

From: Hans Schmitt

Subject: Yugoslavia--Use of Fund Resources

Approved March 10. 84

A staff team comprising Messrs. Hansen and Lewis (EUR), Mr. Petersen (ETR), Miss Owen (TRE) as secretary, and myself visited Yugoslavia from February 16 to March 2, 1984. Preliminary agreement was reached on the attached draft letter of intent. The mission met with Messrs. Dragan and Cukovic, Vice Presidents of the Federal Executive Council; Mr. Smole, member of the Federal Executive Council; Mr. Klemencic, Federal Secretary for Finance; Messrs. Makic and Veljkovic, Governor and Deputy Governor, respectively, of the National Bank of Yugoslavia; and other officials.

The proposed program for 1984 is addressed to the following problem. The balance on external current account in convertible currencies improved sharply in 1983, from a deficit of US$1,600 million (about 3 percent of GSP) to a surplus of US$300 million, as shown in the attached table. However, an opposite swing in the capital account more than offset it, and reserves ended US$55 million lower at the end of 1983 than a year before. Errors and omissions alone swung from an inflow of US$660 million in 1982 to an outflow in 1983 of more than US$1,200 million. The program therefore places particular emphasis on improving the balance on capital account, while safeguarding the momentum of improvement in current transactions.

The main feature of this year's program is a sharp increase in interest rates. Forty percent of the gap between present rates and a target real interest rate is to be closed by May 1, 1984, and the rest in four additional steps by March 31, 1985. The first step will raise nominal interest rates on three-month dinar-denominated deposits for households from 12 percent to about 30 percent. It is expected that this move, by significantly reducing the short-term capital outflow from Yugoslavia, will permit an increase in external reserves of US$500 million. The progressive attainment of this reserve target was made a performance criterion.

A central feature of last year's stabilization program was a real depreciation of the exchange rate. By the end of the year it had reached a little more than 25 percent rather than the 30 percent originally targeted, and has since narrowed further to about 15 percent as the nominal rate was stabilized after the last test date in November. The real depreciation rate is now to be restored in two steps to just under 25 percent by the end of June 1984, and to be held there by monthly adjustments in the nominal effective exchange rate to offset inflation

differentials. It is expected that an adequate price incentive will remain to further increase the convertible current account surplus, from US$300 million to US$500 million, despite some recovery in economic activity and imports.

Exchange rate action last year was supported by a tight monetary policy--the real money stock declined by 12 percent. Nevertheless, in response mainly to the aggressive depreciation of the exchange rate, the increase in retail prices accelerated from 31 percent during 1982 to 58 percent during 1983. Also, a sharply declining real interest rate caused the velocity of circulation of broad money to increase rapidly, limiting the decline in real economic activity to only 1.0 percent. It is assumed that price inflation will moderate in 1984 to about 50 percent through the year. Credit limits have been specified which, on that assumption, will stabilize the real money stock at its end-1983 level. This should accommodate an increase of about 1.0 percent in economic activity, led by a continued recovery of exports.

Fiscal restraint helped substantially in releasing resources for external adjustment last year. There was a positive balance between revenue and expenditure despite a decline in public sector revenue of 5 percent in real terms. Both features are to be carried through into 1984. A minimum increase in the net claims of the public sector on the banking system is incorporated in the credit ceilings, as well as a limit on the increase in public sector revenue to 85 percent of the increase in retail prices. Expenditure cuts are to be concentrated on export subsidies. In addition, the growth in subsidies through Joint Reserve Funds which are not included in the public sector will be limited to one-half the rise in the retail price index.

Wage restraint made another important contribution to the adjustment process in 1983. Real wages in the socialized sector declined by more than 10 percent last year and by about 25 percent over the last four years. Further wage restraint in 1984 is to focus on loss-making enterprises. They are to limit the increase in their nominal wage payments to two-thirds the increase in the wage bill of the socialized sector in the republic or province in which they are domiciled. A similar but more stringent limit is placed on the wage payments per employee of illiquid enterprises until they are again current in their debt service payments. In this way the transfer of labor to the more competitive sectors of the economy is to be accelerated.

The Yugoslav authorities believe, and the mission concurs in their view, that this set of measures is adequate to achieve the current account and reserve objectives in 1984. Even then, much remains to be done, particularly concerning the foreign exchange allocation system. We are not sure that all imports into Yugoslavia were reported last year; if not, then at least part of the capital outflow is more apparent than real. Failure to report imports may be due to continuing inefficiencies in the foreign exchange allocation system, a closer study of which is provided for in the letter of intent, as a basis for further reforms in 1985.

Parliament is expected to ratify the proposed letter of intent by mid-March; if you approve the Board could meet on it the week of April 16, 1984. The first drawing would not take place until after May 1, 1984, the date on which the current price freeze is to be lifted and a number of other policies are to be put in place. The current stand-still on external debt repayments with governments and banks will expire on March 31, 1984 and an extension of at least one month will therefore be required. The next meetings of friendly governments are scheduled for March 23-24, 1984.

May we have your judgment please?

Attachments

cc: Mr. Habermeier
Mr. Hood
Mr. Whittome
Mr. Finch
Mr. Mohammed
Mr. Nicoletopoulos
Paris Office
Geneva Office
Mr. Collins

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INFUND 610712F

INTERFUND PARIS MARCH 7 1984

INTERFUND
WASHINGTON DC

FOR MR WHITTOME) U R G E N T
CC: MR. SCHMITT) FOR IMMEDIATE DELIVERY PLEASE
CENTRAL EUROPEAN DIVISION)

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REGARDS,

MENTRE

INTERFUND PARIS

INFUND 610712F

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TIME: 07:06 03/07/84 ???
CONNECT TIME : 484 SECONDS

IN OPERATION OF EXPORT INSURANCE SYSTEM

MITI lists 52 countries as risk-prone

Government-run export insurance has been suspended on shipments to 25 "high-risk" countries, including Brazil and Mexico, in accordance with the insurance system's new guideline on country risk. The guideline, which is a revelation of the Ministry of International Trade and Industry's own assessment of sovereign risk, has also partly limited insurance on exports to 27 "risky" countries, such as Iran and Iraq.

Under the export insurance scheme, MITI pays insurance money to traders and manufacturers when they have proved unable to collect bills or suffered other losses on export transactions.

As a number of Latin American countries have rescheduled debts since last year, numerous exporters have claimed insurance payment, leading to a sharp deterioration in the balance of the insurance system. To cope with the huge deficits thus generated in the Export Insurance Special Account, MITI is scheduled to borrow from the Trust Fund Bureau.

At the same time, the ministry, now more cautious about providing insurance to export contracts with countries whose creditworthiness is in question, has come up with the new guideline that represents stricter criteria for accepting the insurance according to country risk: whether or not to accept an application for insurance at all; if it is to be accepted, on what conditions and to what amount. In this, importing countries are classed as to their riskiness according to criteria by the Ministry of International Trade and Industry.

The new guideline lists 25 countries as "high risks," and export insurance to them is to be refused. Of those, 15 are heavily indebted countries, including Brazil and Mexico, which have already rescheduled their debts, and another five are politically unstable, such as the Philippines and Poland, which have applied for rescheduling. North Korea, which allegedly masterminded

(Continued on Page 8)

(Continued from Page 1)

a plot to assiassinate South Korean leaders in Rangoon, and Afghanistan where Soviet troops have been stationed since 1979, is also included in this group of high-risk countries,.

In addition, 27 countries have been placed under restrictions as to acceptance of export insurance. They are categorized into three groups according to the degree of riskiness.

Category A, consisting of seven countries regarded by MITI as close to rescheduling debt, include Argentina, Iran and Iraq. For these "considerably risky" countries, MITI has already suspended export insurance on long-term contracts and lowered the insurance coverage on short-term exports.

Countries belonging to Categories B and C are considered to be "somewhat risky". The former includes India and Sri Lanka, and the latter includes Hong Kong, the lease on which from China will expire in 1997, and such ASEAN countries as Malaysia and Indonesia.

LISTING OF RISK COUNTRIES

"High-risk" countries (export insurance suspended)—

1. Countries that have rescheduled debts:
   Mexico, Brazil, Peru, Ecuador, Cuba, Costa Rica, Turkey, Sudan, Zaire, Malawi, Zambia, Morocco, Ghana, Sierra Leone, Romania
2. Countries applying for rescheduling: the Philippines, Yugoslavia, Poland, Madagascar, Ivory Coast
3. Other countries: North Korea, Lebanon, Afghanistan, Vietnam, Cambodia

"Risky" countries (export insurance restricted)

1. Group A (Export insurance suspended on long-term contracts; coverage lowered on short-term contracts):
   Iran, Iraq, Pakistan, Libya, Nigeria, Argentina, Venezuela
2. Group B (Increased premiums applied both to long- and short-term contracts; country-wise ceiling set for insurance acceptance on long-term contracts):
   India, Sri Lanka, Egypt, Syria, Jordan, East Germany, Hungary, Bulgaria, Chile, Tunisia
3. Group C (Ceiling set for insurance acceptance on long-term exports):
   Hong Kong, South Korea, Taiwan, Malaysia, Singapore, Indonesia, Thailand, South Africa, Algeria, Trinidad and Tobago

"Risk-free" countries—

United States, Canada, Western Europe, Australia and others.

Mr. Whittome

cc: Mr Boorman

Office Memorandum

March 1, 1984

MEMORANDUM FOR FILES

Subject: Yugoslavia - German views

When in Germany to discuss my report on The Fund and Commercial Banks, I had meetings on Yugoslavia with the Bundesbank (Mr. Rieke and one associate, February 17), the Ministry of Economics (Mr. Kühn and Mr. Von Korff, February 20), and the Ministry of Finance (Mr. Pieske and one associate, February 21). In addition, I was invited by Mr. Kolbeck and Mr. Mauersberger of Westdeutsche Landesbank, the German member of the ICC, to attend a dinner on February 20.

In the Bundesbank, I gave a status report on negotiations under way between Yugoslavia, the Fund, commercial banks, and governments. The input on their part was quite limited. Doubts were expressed on the accuracy of external trade figures (shift from settlements in non-convertible currencies to settlements in convertible currencies, use of the statistical exchange rate), the viability of the current account results (artificial cutting of imports, adverse developments in tourism and workers' remittances), and the ability of the Yugoslav authorities to monitor effectively the economy (size of the parallel economy, share of foreign exchange deposits in the monetary aggregates). 1/

Mr. Kühn and Mr. Von Korff raised questions on the timetable for negotiations and on the substance of discussions between the Fund and Yugoslavia. They stand ready to participate in a Geneva meeting during the week March 19-24 (subsequently set on the 24th), provided that, as soon as the mission has reached an agreement and is back in Washington, Executive Directors most concerned, including Mr. Laske, receive an adequate briefing enabling them to report to their authorities in time for the latter to assess their final position in advance of the Geneva meeting. Also, they wanted to have the final balance of payments figures for 1983-1984 as they will be submitted to the Board, and expressed the hope that the report to the Board would be available at the time of the Geneva meeting.

On German export credits, they said that credits under the 1983 Berne Agreement had now been fully used by Yugoslavia. According to German regulations, those credits were to be used for "goods of vital interest for Yugoslavia" as demonstrated by a priority certificate issued by the Yugoslav authorities. Germany had accepted that such goods could include spare parts and intermediate goods through a waiver of normal Berne Union rules agreed with other creditor countries. Starting in November, Yugoslavia broadened the list

1/ When in London, on February 16, I had basically the same discussion with Mr. Hall, Bank of England. Mr. Hall also mentioned the desirability of avoiding an extension of the stand-still period and said that it was doubtful that the U.K. Treasury would change its negative attitude on a new pledge on export credits.

to include equipment goods for export-oriented industries (I understand that there were pressures to that effect applied on Yugoslavia by the German exporters and the German authorities). Overall, out of $150 million under the Berne package, about 40 percent had been used for equipment goods. Germany therefore now had a better perception of the need for additional export credits in 1984. The Ministry of Economics was leaning towards a positive attitude but the views of other Departments, notably the Ministry of Finance, would have to be taken into account in the final assessment. I stressed that such credits should again be available for medium-term financing of spare parts and intermediate goods. Mr. Von Korff said that guaranteed short-term credits were available to that effect: Hermes was open without limitation on short-term credits to Yugoslavia which had indeed increased in 1983. Mr. Kühn was a little more positive on this issue, saying that the final German position would also depend on the attitude of other creditor countries. Mr. Von Korff said that his assessment of the Paris meetings was that there was no desire to have in Geneva a new collective pledge along the lines of the 1983 Berne Agreement. I said that, according to our information, the United States stood ready to grant CCC credits in 1984 for about one-half of their 1983 commitment. If Germany were also in a position to announce in Geneva its contemplated action, this should induce others to make parallel announcements. It would not necessarily imply a collective pledge, but there could be, in the course of the year, a follow-up meeting to assess the completion of national undertakings. Mr. Kühn promised to be in contact with other EC countries, notably France, to inform them of the present German attitude and to assess with them what type of parallel action could be contemplated in Geneva.

Finally, on refinancing of maturities falling due, Mr. Von Korff said that the 1983 agreements had now been fully completed (for a total amount of DM 111 million instead of DM 125 million contemplated at the time of the Paris meeting). For 1984, after Board action and the signing of the Agreed Minutes of the creditors' Paris meeting, Germany will start bilateral discussions with Yugoslavia. It would take time since Germany does not sign bilateral agreements before the completion of the reconciliation process, but the de facto standstill would be maintained in the meantime.

Mr. Pieske and his associate also concurred in the 100 percent refinancing of maturities, but were more cautious on export credits. The Government has to certify to the Parliament that new export credits are granted to credit-worthy countries. The final position of the German authorities will be arrived at later and, at this stage, one should not mention to other countries what could be their final attitude. On negotiations under way between the Fund and Yugoslavia, Mr. Pieske stressed the need to define adequate measures to cope with the alarming negative amounts recorded under errors and omissions.

Messrs. Kolbeck and Mauersberger also wanted information on the status of discussions under way. They had not much to offer on likely banking flows from Germany to Yugoslavia in 1984. Westdeutsche Landesbank was the German ICC member, but was dealing mainly with small and medium-sized German companies, while the bulk of trade financing was related to the operations of large German companies, the customers of Deutsche Bank, Dresdner Bank and Commerzbank. In their judgment, the position of the German authorities would be essential. If they stood ready to grant new medium-term export credits, German banks should normally stand ready to accompany them with non-guaranteed credits, at least for the un-insured portion (for which, by the way, the risk appears to be taken by the exporter and not by the bank). If it were possible to avoid an extension of the stand-still, it would also help improve the image of Yugoslavia in the German banking community.

P. Mentre

cc: Mr. Whittome
Mr. Schmitt
Mr. Hansen
Mr. Lewis
Mr. Petersen

IMF OFFICIAL CABLE

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cc: CBD

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BEOGRAD 02.03.1984
BEOGRAD INTER.CONTINENTAL HOTEL

TLX NO 518/SSR

TO BRIAN ROSE
INTERFUND WASH DC (USA)

YUGOSLAV MISSION
MESSRS. HANSEN, LEWIS AND PETERSEN ARRIVING ON PA 107.
ARRIVING 1:40 P.M. DULLES, MARCH 3.
I WILL ARRIVE ON PA 551 AT 6:48 P.M. DULLES, MARCH 3.
MISS OWEN PROCEEDING ON LEAVE AS PLANNED.
REGARDS
SCHMITT

+
440385 FUND UI

12085 ICHBEG YU

No Notification Required.

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REPLY VIA ITT

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TIME: 04:39 03/02/84 ???
CONNECT TIME : 94 SECONDS

Office Memorandum

March 2, 1984

MEMORANDUM FOR FILES

Subject: Yugoslavia

Mr. Vogler telephoned me this morning to say that the inter-governmental meeting had now been set for March 24 and that formal invitations would be sent out next week. He then raised three points. Since several countries including the United States had made their participation in this meeting conditional on an agreement with the Fund, the Swiss believe that some mention should be made in the telexed invitation of the agreement that had been reached. I promised Mr. Vogler that we would telephone him on Monday morning to suggest how much it would be prudent to say at this stage.

He then asked whether the letter of intent could be made available to all the countries attending the meeting and he also wished to make sure that the Swiss authorities would be fully informed. I told him that in my view our priority would be to secure the Managing Director's approval of the agreement that Mr. Schmitt had tentatively reached. Thereafter we should be faced with what was to us a fairly familiar question of the precise procedure we should follow in order to inform interested member countries. We could not, for formal reasons, release the letter of intent to some Executive Directors without releasing it to all, but we might well decide in one way or another to inform member countries through the Executive Directors. Certainly, in any event country representatives would be fully briefed before they came to the meeting in Geneva. So far as the Swiss authorities were concerned, I assured Mr. Vogler that we could continue our usual practice of keeping them fully informed and I said that Mr. Whittome would no doubt have his own views on the precise channel he would prefer to employ.

Mr. Vogler said it would be helpful if we could call before noon on Monday, and though I think this is an optimistic target perhaps we could make it by then.

— Spoke to Mr Vogler 5/3

Brian Rose BR

cc: Mr. Schmitt
Mr. Boorman

YUGOSLAVIA

DRAFT
March 1, 1984

Dear Mr. de Larosière,

1. The stabilization program which we pursued over the last three years, and which was supported by a stand-by arrangement with the Fund, has begun to show substantial results. In particular, the deficit on external current account in convertible currencies, after reaching a peak of US$3,300 million in 1979, was turned into a surplus of US$300 million in 1983. The swing in the last year alone came to about US$1,900 million. Part of this improvement was due to changes in the regional distribution of trade, and to a compression of imports, neither of which can be continued in 1984. The underlying adjustment, nevertheless, will in our judgment permit a further improvement in the external current account to a surplus in 1984 of at least US$500 million.

2. Developments in the external balance on capital account have been less satisfactory; as a result the increase in external reserves which we had targeted at the beginning of 1983 did not materialize. The most disappointing among the reasons for this outturn has been a swing in transitory items from a surplus of US$660 million to a deficit of perhaps as much as US$1,200 million, which nearly offset the whole of the improvement in the external current account. Apart from safeguarding the momentum of improvement in current transactions, therefore, our

program for 1984 places particular emphasis on measures to improve the balance on capital account, so as to ensure an increase in official external reserves of at least US$500 million.

3. Final domestic demand was cut back by 4 percent in 1983, and though exports to the convertible currency area began to respond forcefully to the gain in competitiveness during the year, gross social product (GSP) still showed some decline. A further reduction in domestic demand will again be necessary for balance of payments reasons in 1984, but as exports continue their recovery we expect that any tendency for GSP to decline will be reversed. The program we have adopted to reach these objectives is set out below. In support of it we request, on behalf of the Federal Executive Council of the Socialist Federal Republic of Yugoslavia, a stand-by arrangement with the Fund in an amount equivalent to SDR 370 million.

Price Policy

4. We see the program for 1984 as a stage in a longer-term stabilization process. Operating at normal capacity, the economy a few years ago ran a deficit on external current account that could not be financed on a sustainable basis. It can return to normal capacity production with external balance only after the structure of production has shifted sufficiently away from sectors that supply mainly domestic markets to sectors that can

supply external markets as well. Such structural change entails temporary inflationary pressure as prices in priority sectors rise relative to those elsewhere. It also requires that many enterprises in the declining sectors retrench or be phased out as those in priority sectors expand.

5. For structural adjustment to take place as smoothly and as rapidly as possible relative prices need to be flexible. In recognition of this point a selective price freeze was allowed to lapse in July 1983, despite the additional push to inflation that it entailed. However, as price adjustments began to show a tendency toward overshooting around the turn of the year, a new price freeze was imposed effective December 23, 1983. Following a cooling off period, this freeze will now be lifted no later than May 1, 1984. From then on the proportion of industrial output free of price control will be expanded from the 45 percent in effect before the latest freeze, to at least 55 percent, leaving some 35 percent with prices subject to approval by the relevant authorities, and 10 percent with prices set by the authorities directly.

6. The latest price freeze was preceded by increases particularly in railway and in electricity tariffs to bring them closer to economic levels. Further increases in relative prices in key sectors, notably railways and electric power, are planned

for later in 1984 and in the years beyond. Periodic checks will ensure that, for the remainder of 1984, both railway and electricity tariffs will do no less than keep pace with increases in producer prices, and that prices of natural gas, oil and oil derivatives rise no less than the dinar exchange rate of the dollar (Annex I). We expect that more frequent and gradual adjustments to such administered prices as are now planned will help to avoid future shocks to the general price level.

<u>Exchange Rates</u>

7. Exchange rate depreciation was one of the important elements in the stabilization program for 1983. By raising the dinar price of exports above producer prices realized at home, it was to provide the major incentive for shifting production toward exports and import substitutes, and thus to permit a return to capacity production with external equilibrium. To calm price expectations, the monthly depreciation of the exchange rate was temporarily discontinued around the turn of the year. However, to achieve a level of competitiveness adequate for a substantial liberalization of our trade and payments system, we shall by June 30, 1984 reach a target real depreciation of about 25 percent since the start of 1983, and hold it there by monthly adjustments sufficient to compensate for inflation differentials from the start of 1984 (Annex II).

8. We have already acted to expand the scope of a unified foreign exchange market. As of the beginning of this year, 54 percent of foreign exchange receipts from the export of goods and nonfactor services is transferred through authorized banks to an account in the National Bank of Yugoslavia to cover specified payments needs, including collective needs in the republics and provinces. The remaining 46 percent is divided into two parts. One part is retained by net exporters to meet their direct and indirect foreign exchange requirements. The rest is sold to authorized banks, which will offer it for sale to net imports or to other banks in the foreign exchange market. Enterprises that cannot service external debts from their own resources or those of associated enterprises may draw in turn on those of their own bank, other banks in the republic or province in which they reside, other banks in the country at large, or the National Bank of Yugoslavia.

9. This is as far as we have carried the liberalization of our payments system to date. We are conscious that, as the flow of foreign exchange to Yugoslavia is normalized, further progress will be possible, based on the consent of those who earn the foreign exchange and to whom it therefore belongs. An official review will be considered in the Assembly of the SFRY by mid-year. We have also consented to a separate study of the operations of the present system by a group chaired by the International Monetary Fund with the assistance of expert consultants from Yugoslavia. This study will be completed not later than

August 31, 1984, in time to be of use during the review of the stand-by arrangement specified in paragraph 24, in defining any further measures that may be deemed necessary to improve the efficiency of the system.

Financial Discipline

10. The restructuring of the economy that will permit a rapid expansion of economic acticity without external risk, needs to be accelerated if inflationary pressures are to be contained. To this end the real resources available for subsidizing firms, some of which should be phased out, need to be reduced. The annual contributions into joint reserve funds for 1984 were already determined before new directives could be implemented (Annex III). However, we have arranged that the percentage increase in payments from such funds during 1984 will be limited to one-half the percentage increase in the retail price index over a year earlier. This will require greater selectivity in the choice of enterprises to be supported, and thus help to accelerate structural change.

11. We are also requiring that basic work units, whose financial deficits caused the 1983 consolidated accounts of the enterprise to show losses, limit the percentage year-on-year growth in their personal income payments in 1984 to two-thirds the growth in the personal income payments in the socialized sector of the republic or province in which they are domiciled. Similarly, with effect from July 1, 1984, illiquid basic work units in enterprises that fail to meet their obligations to creditors when due, will be required until they are

again current in their debt service obligations, to limit the percentage year-on-year growth in their personal income payments per employee, to one-half the percentage growth in the personal income payments per employee in the socialized sector of the republic or province in which they reside.

Interest Rates

12. The acceleration of inflation last year frustrated our efforts to raise interest rates on dinar deposits to more nearly positive levels in real terms. Nominal rates on such deposits were to have been increased substantially at the end of last year, but were left unchanged at their levels of last February. Disregarding the strictly temporary complication introduced by the price freeze, such interest rates accordingly remain substantially negative in real terms, and disadvantage those who switch foreign exchange into dinars. By encouraging delays in payments from abroad, such a situation reduces the supply of foreign exchange for imports. A shortage of imports in turn exacerbates the inflationary pressures that we intend to reduce.

13. A decisive move to raise nominal rates on dinar deposits to more competitive levels has therefore been decided upon. Competitive levels would normally be defined as the yield in dinar terms of comparable deposits abroad. As exchange rate changes are only to equalize inflation differentials, following a corrective adjustment, the twelve-month change in

producer prices plus a target real rate will do equally well. The difference between the initial rate on dinar deposits of three months and the target rate so defined, will be eliminated by April 1, 1985 in progressive installments starting May 1, 1984 (Annex IV). The discount rate and other lending rates of the National Bank of Yugoslavia will be similarly adjusted.

14. A firm timetable for interest rate increases has been set to ensure the attainment of our objectives. Negative real interest rates are an instrument for subsidizing borrowers, the real value of whose debt falls as prices rise, at the expense of depositors, the real value of whose deposits diminishes for the same reason. Unrealistically low interest rates help to maintain uneconomic enterprises, and in view of their adverse impact on external capital flows, they do so in a particularly damaging way. Their correction must nevertheless be phased in order to allow time for the necessary adjustments, and to be accompanied by measures, which we have instituted, to improve the financial structure of viable enterprises, that relied too heavily on debt financing in the past.

Credit Ceilings

15. Credit ceilings will again be required to ensure that the total claims on resources in the economy do not exceed the available supply, and that within this constraint priorities are clearly defined and enforced. In the process, structural

adjustment will again be advanced and inflationary pressures moderated. During 1983 the stock of broad money declined by some 12 percent in real terms, due in part to a rate of inflation that turned out to be higher than originally assumed. A certain degree of flexibility was provided by the exclusion from the ceilings on net domestic assets of the banking system, by which monetary policy is defined, of valuation changes in net foreign liabilities and in foreign exchange deposits, but not so much as to thwart the intended effect of the ceiling.

16. Because of the uncertainty regarding inflation, we have again chosen to define our monetary ceilings in terms of the net domestic assets of the banking system, excluding valuation changes on net foreign liabilities and on foreign currency deposits. In fixing them for 1984 we have also taken into account the probable effects of interest rate increases on the desire to hold money. On this basis we calculate the ceiling for end-December 1984 at Din 4,633 billion compared with Din 3,942 billion a year earlier. A quarterly phasing of this increase through the year has been set (Annex V). Within each total, allowance is made for the planned increases, described below, in the net asset position of the public sector with the banking system.

Public Finance

17. The public sector will continue to contribute substantially to the improvement in the external balance, and to the moderation in inflationary pressure, by further reducing both its revenues and expenditures in real terms. For the republics and provinces, the cumulative quarterly year-on-year increase in revenue for general and collective consumption will be limited to 75 percent of the cumulative year-on-year percentage rise in total income of the socialized sector, except for the first quarter in which revenues are not to exceed their nominal level in the last quarter of 1983. Although federal and other revenues are exempt from this limit, the quarterly increase in total public sector revenue will be limited to 85 percent of the increase in the retail price index over the previous year, and will be monitored in that way (Annex VI).

18. Over the past few years public expenditures have risen even more slowly than revenues, and net assets with the banking system have accumulated commensurately. The increase in such assets was due in part to the requirement to deposit excess revenue in blocked accounts set up under the last stand-by arrangement. This practice permitted a larger expansion of credit to the productive sector within a given overall credit ceiling. To serve the same purpose more simply in 1984 we have set a minimum level for the public sector's net assets with the banking system, phased quarterly over the year. The amount of the increase, at

Din 40 billion, is comparable to the 1983 performance in relation to public sector revenue as presently forecast (Annex VII).

19. Expenditure restraint will be concentrated on the payment of subsidies, particularly on subsidies to exporters who will receive sufficient stimulus by way of the exchange rate. Specifically, payments to export producers by the Community of Interest for Foreign Economic Relations, other than the customs duty drawback and the contribution to agricultural support funds, will be progressively reduced or eliminated in 1984. There will be no change in the proportion of import duties and fees credited to that Community. The resulting surplus revenues of that Community will be channeled into the blocked accounts set up under last year's stand-by arrangement. These deposits will not add to the growth already stipulated for the public sector's net assets with the banking system; they will rather be a component of it.

External Debt

20. We expect by these various measures to reach, and even to exceed, our external current account objectives and also to improve our performance on capital account. We are determined to begin reducing our external debt as soon as possible. Gross borrowing last year came to the equivalent of about US$4.3 billion; we expect to limit our requirements this year to US$3.3-3.5 billion (Annex VIII). To secure this amount we have again entered into arrangements with a group of creditor governments

and banks to refinance debt falling due, and expect to draw a limited amount of fresh money to build up the reserves. We will make the progressive buildup of our reserves, by a total of US$500 million, a test of the success of our programs (Annex IX).

21. Despite the scarcity of resources a certain outflow of capital from Yugoslavia is normal and acceptable. However, the outflow of export financing and short-term capital of roughly US$2.0 billion in 1983 was clearly excessive. We will spare no effort to reduce such flows to no more than US$500 million in 1984, and to cover them by an equivalent surplus on current account in convertible currencies. One central element in achieving this reduction in capital outflow is our move to an active interest rate policy. In addition, we have itensified the application of controls on the repatriation of export earnings. If exporters fail to repatriate export proceeds within 90 days their credit line for that export will be withdrawn.

22. We have also decided to facilitate an accelerated drawdown on external lines of credit, particularly of the supplier credits granted by the Berne group of governments. The administrative regulations governing their utilization proved too restrictive in 1983. In order to ensure the availability of foreign exchange to repay the foreign credits, drawings were made available only to exporters who had proof of export orders in hand, and raw material imports financed by supplier credits have had to amount to less than 50 percent of the value of the export into which

they entered. Along with the improvements in the foreign exchange allocation mechanism, the close link has now been broken between exports and imports in the allocation of external credits, so as to allow the financing of imports of general interest to the economy.

Other Matters

23. The Federal Executive Council of Yugoslavia does not intend to introduce any multiple currency practices or introduce new or intensify existing restrictions on payments and transfers for international transactions or enter into any bilateral payments arrangements with Fund members. A limitation on the export and import of dinars for travel to Din 1,500 per person for the first trip, and to Din 200 per person for each subsequent trip within one year, has helped to reduce illegal currency transactions, and will be removed as soon as circumstances permit. The Federal Executive Council does not intend to introduce new restrictions or intensify existing restrictions on imports for balance of payments reasons.

24. The Federal Executive Council believes that the policies set forth in this letter are adequate to achieve the objectives of its program but will take any additional measures that may have become appropriate for this purpose. The Yugoslav authorities will review economic developments in 1984 with the staff of the

Fund on a quarterly basis. They will consult with the Fund as soon as is practicable after September 1984, and in any case not later than November 30, 1984 to agree with the Fund on any modifications and extensions of the performance criteria that may be appropriate during the stand-by period. Finally, the Federal Executive Council will consult with the Fund, in accordance with the Fund's policies on consultations, on the adoption of any measures that may become appropriate.

Sincerely,

<u>TECHNICAL MEMORANDA</u>

March 1, 1984

1. Price Adjustments

2. Calculation of the Index of the Exchange Rate.

3. Financial Discipline in the Enterprise Sector

4. Interest Rates of Yugoslav Banking System

5. Domestic Assets of the Yugoslav Banking System

6. Public Sector Revenue Ceiling

7. Net Assets of the Public Sector with the Banking System and the Blocking of Excess Revenue of the Community of Interest for Foreign Economic Relations in the National Bank of Yugoslavia

8. External Borrowing Limits

9. Balance of Payments Test

ANNEX I
March 1, 1984

Subject: Technical Note on Price Adjustments

1. Railway tariffs will be increased periodically in the course of 1984 such that, on average, they are at least 10 percent higher than the average level of railway tariffs at the end of December 1982, multiplied by the index of industrial producer prices expressed with a base of December 1982 equal to 1.00, as indicated below:

Average railway tariffs shall be a minimum of 10 percent higher than the average at the end of December 1982, multiplied by the index of industrial producer prices, with a base of December 1982 equal to 1.00, for the month of:	Corresponding average level of tariffs to be made effective not later than:
April 1984	June 30, 1984
October 1984	December 31, 1984

For the purpose of this calculation, the increase in freight rates and in passenger fares are assumed to have weights of 80 percent and 20 percent, respectively, in the share of railway revenue.

2. Electricity tariffs will be adjusted periodically in the course of 1984 such that the adjusted electric power subindex of the industrial producer price index, with a base of March 1983 equal to 100, is at least 15 percent higher than the industrial

producer price index that covers the same length of time, but with a lag of one month, as shown below. For this purpose the industrial producer price index is expressed with a base of February 1983 equal to 100.

The adjusted electric power price index (March 1983 = 100) for the month of:	Shall be at least 15 percent higher than the industrial producer price index (February 1983 = 100) for the month of:
June 1984	May 1984
December 1984	November 1984

3. The adjusted electric power subindex for a specified month is equal to the official electric power price subindex also expressed with a base of March 1983 equal to 100, divided by the seasonal coefficients. The seasonal coefficients listed below permit a comparison of electricity tariff schedules between months involving both winter and summer tariffs. In particular, the coefficients indicate what the relative movement of the published electricity price index would have been in the course of 1983, if there had not been increases in the set of tariff schedules but only the usual shifts between winter and summer tariffs.

Seasonal coefficients	
January	1.210
February	1.210
March	1.000
April	0.871
May	0.879
June	0.879
July	0.879
August	0.879
September	1.081
October	1.210
November	1.210
December	1.210

4. The average producer prices of domestic natural gas, of crude petroleum and of petroleum products (including gasoline, kerosene, diesel oil, fuel oil and LPG) will be increased on a quarterly basis by no less than the percentage increase in the dinar/U.S. dollar exchange rate in the course of 1984, as shown below:

Minimum Percentage Increase in Each of the Domestic Natural Gas, Crude Petroleum, and Petroleum Products Prices Over Those in Effect as of January 31, 1984

Equal to the percentage increase in the exchange rate, dinars per U.S. dollar, from December 31, 1983 until:	To be made effective no later than:
March 31, 1984	April 30, 1984
May 31, 1984	June 30, 1984
August 31, 1984	September 30, 1984
November 30, 1984	December 31, 1984

5. The price adjustments specified in paragraphs 1-4 above are understood to be minima and will not bar other increases in prices in real terms that may be agreed upon with the World Bank.

6. A record of the price increases stipulated in paragraphs 1-4 will be published, as they take place, in the Official Gazette of the Socialist Federal Republic of Yugoslavia or in the official gazette of the relevant republic or province.

ANNEX II

March 1, 1984

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

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

1. The real exchange rate of the dinar is expressed as 0.35 (deutsche mark per dinar) plus 0.24 (Italian lire per dinar) plus 0.15 (U.S. dollars per dinar) plus 0.12 (French francs per dinar) plus 0.06 (Austrian schillings per dinar), plus 0.04 (Swiss francs per dinar) plus 0.04 (pounds sterling per dinar) with a base of December 31, 1983 equal to 100 for each bilateral exchange rate of the dinar, multiplied by the ratio of an index of the movements in Yugoslavia's industrial producer prices to a weighted index of the movements in industrial producer prices in the foregoing seven countries as specified in section 3 below.

2. 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 December 31, 1983.

3. The weighted index of industrial producer prices in the foregoing seven countries is defined as 0.35 (index of German prices for industrial products) plus 0.24 (index of Italian wholesale prices) plus 0.15 (index of U.S. wholesale prices for industrial goods) plus

0.12 (index of French prices of industrial goods) plus 0.06 (index of Austrian wholesale prices) plus 0.04 (index of Swiss prices for home goods) plus 0.04 (index of U.K. prices of industrial output) 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 December 31, 1983.

4. 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. No later than 10 days after the end of each month, the following data as of the end of the month will be telexed to the Fund: dinar exchange rates of each of the seven foreign currencies, and the indices of the nominal exchange rate, the real exchange rate, Yugoslav industrial producer prices, the weighted average of seven foreign industrial price indices, and relative industrial prices, where each index is expressed with a base of December 31, 1983 equal to 100.

5. The index of the real exchange rate of the dinar, with a base of December 31, 1983 equal to 100, will be no higher than 110.4 at the end of March 1984, no higher than 105.8 at the end of April and end of May 1984, and no higher than 101.3 at the end of June 1984 and at the end of each month thereafter. A margin of error of 1.0 percentage point will be acceptable.

ANNEX III
March 1, 1984

Subject: Technical Note on Financial Discipline in the Enterprise Sector

1. For the purpose of this agreed memorandum, a loss-making enterprise is understood to mean any work organization in the socialized sector, which for the calendar year 1983 registered a financial loss in its annual financial report to the SDK, as determined before taking into account any outside grants, subsidies, or credits which may be used to cover such losses. Cumulative quarterly limits on personal income payments will apply to all loss-making basic organizations of associated labor (BOAL) within each loss-making enterprise for the periods shown below and will be calculated such that the percentage increase in total payments of personal incomes by all such loss-making BOALs over the corresponding period of the preceding year will be no more than 67 percent of the percentage increase in total payments of personal incomes in the socialized sector in the republic or autonomous province in which the enterprise is domiciled, over a similar period of time but with a lag of one quarter. If an enterprise with a financial loss in 1983 registers a financial surplus for the first nine months of 1984, the above restriction on payments of personal incomes by its BOALs will be lifted in the fourth quarter of 1984 after these results become known.

	Periods for which the Percentage Increases in Total Payments of Personal Incomes Shall be Calculated	
	Personal Income Payments by Affected Loss-Making BOALs	Personal Income Payments in the Socialized Sector
Second quarter	Jan.-June 1984 / Jan.-June 1983	Oct. 1983-March 1984 / Oct. 1982-March 1983
Third quarter	Jan.-Sept. 1984 / Jan.-Sept. 1983	Oct. 1983-June 1984 / Oct. 1982-June 1983
Fourth quarter	Jan.-Dec. 1984 / Jan.-Dec. 1983	Oct. 1983-Sept. 1984 / Oct. 1982-Sept. 1983

2. For a BOAL with overdue obligations to creditors that due and unpaid that is in a similarly illiquid work organization, the percentage growth of payments of personal incomes per employee will be restricted to 50 percent of the percentage growth of payments of personal incomes per employee in the socialized sector of the relevant republic or province. Beginning with the month after such an enterprise has eliminated all payments arrears, the restriction on personal income payments will be lifted, provided that the clearing of arrears did not include grants or borrowing other than bank credit on commercial terms. Legislation to that effect will be implemented by July 1, 1984.

3. Exceptions to the limitations in sections 1 and 2 will be made for loss-making BOALs in the following branches: electricity (0101), coal production (0102), ferrous metals (0107), production of foodstuffs (0130), health and social security (1300), and railways (0601).

4. Any increase, in nominal terms, in payments (including credit extended) from Joint Reserve Funds, which have been formed outside of any one work or composite organization of associated labor, will be subject to cumulative quarterly limits, such that the percentage increase in payments from joint reserve funds (including both grants and credits) will be no more than 50 percent of the percentage increase in the retail price index over a similar period of time but with a lag of one quarter, as shown below:

	Periods for which the Percentage Increases in Joint Reserve Funds' Outlay for Grants and Credits and the Retail Price Index shall be Calculated	
	Outlays of Reserve Funds	Retail Price Index
Second quarter	Jan.-June 1984 / Jan.-June 1983	Average (6 mos. to March 1984) / Average (6 mos. to March 1983)
Third quarter	Jan.-Sept. 1984 / Jan.-Sept. 1983	Average (9 mos. to June 1984) / Average (9 mos. to June 1983)
Fourth quarter	Jan.-Dec. 1984 / Jan.-Dec. 1983	Average (12 mos. to Sept. 1984) / Average (12 mos. to Sept. 1983)

ANNEX IV
March 1, 1984

Subject: Technical Note on Interest Rates of the Yugoslav Banking System

1. It is agreed that for three-month dinar deposits of households, the interest rate will be adjusted on May 1, 1984 so as to eliminate 40 percent of the difference between the nominal interest rate as of January 1, 1984 and the target nominal interest rate which is calculated as defined in section 2 below. Enterprises will receive the same interest rate on three-month deposits as apply to households. The three-month interest rate will be adjusted on July 1, 1984 to eliminate 55 percent of the difference between the target nominal interest rate as of that date and the rates in effect on January 1, 1984. Similarly, on October 1, 1984 70 percent of the difference, and on January 1, 1985 85 percent of the difference between the interest rate as of January 1, 1984 and the target nominal interest rates on the respective dates will be eliminated. On April 1, 1985 the interest rate for three-month deposits will be set at its target nominal level.

2. The target nominal interest rate for three-month dinar deposits of households and enterprises is equal to the percentage increase in the industrial producer price index over the preceding 12 months plus 1 percentage point. Thus, for the purpose of adjusting interest rates on May 1, 1984 the target rate for three-month dinar deposits will be based on the percentage increase in producer prices from March 1983 to March 1984.

3. The discount rate of the National Bank of Yugoslavia will be increased on May 1, 1984 to the same level as the new three-month dinar deposit rate. Thereafter, the discount rate will be adjusted according to

the method and timing described in section 1 on the basis of the same target nominal interest rate that applies to three-month dinar deposits. Adjustments to interest rates of the National Bank of Yugoslavia on credits for selective purposes will be three-quarters of the contemporaneous adjustment, in percentage points, of the discount rate of the National Bank of Yugoslavia, beginning with the adjustment in May 1984.

4. Any modifications in the schedule of changes in interest rates that in the view of the Yugoslav authorities may become necessary will be reviewed with the Fund in the context of the consultation specified in paragraph 24 of the letter of intent.

ANNEX V
March 1, 1984

Subject: Technical Notes on Domestic Assets of the Yugoslav Banking System

1. The banking system is defined as the consolidated accounts of the national banks and 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 1983 (In billions of dinars)
Net foreign liabilities	1,202
Plus M2 (money and quasi-money)	2,927
Minus public sector deposits	187
Net domestic assets	3,942

2. In setting the ceiling for NDA the effects of changes in the exchange rate on the net foreign liabilities of the banking system, and on foreign currency liabilities which are included in quasi-money, are excluded by applying the necessary valuation adjustment (cumulative from end-December 1983) to the relevant data. It is understood that the foreign exchange proceeds of any special assistance will be shown both as an asset and a foreign exchange liability of the National Bank of Yugoslavia.

3. It is agreed that NDA for the end of December 1984 shall not exceed Din 4,633 billion compared with the level of Din 3,942 billion at the end of December 1983. Further, the authorities will ensure that NDA will not exceed the ceilings established in the attached Table 1.

Table 1. Yugoslavia: Credit Ceilings

(In billions of dinars)

		Net Domestic Assets of the Banking System
1984	January-June 1/	4,117
	June 2/	4,239
	July-September 1/	4,378
	September 2/	4,410
	October-December 1/	4,570
	December 2/	4,633

1/ Average of end of month data.
2/ End-month data.

4. Any modifications in the ceilings on net domestic assets that in the view of the Yugoslav authorities may become necessary will be reviewed with the Fund in the context of the consultation specified in paragraph 24 of the letter of intent.

ANNEX VI
March 1, 1984

Subject: Technical Note on Public Sector Revenue Ceiling

Public sector revenue for the purpose of this ceiling is defined to comprise revenue of sociopolitical communities plus revenue for collective consumption, which totals Din 1,172.553 billion in 1983. Cumulative quarterly limits on public sector revenue will apply for the periods shown below and will be calculated such that the percentage increase in public sector revenue over the corresponding period of the preceding year will be no more than 85.0 percent of the percentage increase in the retail price index over the same length of time but with a lag of one quarter, as shown below. A margin of error of Din 2.0 billion will be acceptable.

Periods for which the Percentage Increases in Public Sector Revenue and the Retail Price Index shall be Calculated

	Public Sector Revenue	Retail Price Index
Second quarter	Jan.-June 1984 / Jan.-June 1983	Average (6 mos. to Mar. 1984) / Average (6 mos. to Mar. 1983)
Third quarter	Jan.-Sept. 1984 / Jan.-Sept. 1983	Average (9 mos. to June 1984) / Average (9 mos. to June 1983)
Fourth quarter	Jan.-Dec. 1984 / Jan.-Dec. 1983	Average (12 mos. to Sept. 1984) / Average (12 mos. to Sept. 1983)

ANNEX VII
March 1, 1984

Subject: Technical Note on the Net Assets of the Public Sector with the Banking System and the Blocking of Excess Revenue of the Community of Interest for Foreign Economic Relations in the National Bank of Yugoslavia

1. The net assets of the public sector with the banking system are defined as total deposits of the Federal Government, other sociopolitical communities and communities of interest for collective consumption with the national banks and basic and associated banks, minus credits (including purchases of bonds and notes) extended by these banks to the said public sector entities. Excess public sector revenue blocked in the National Bank of Yugoslavia in 1983 and after is included in the assets of the public sector. The net asset position of the public sector with the banking system is calculated to equal the sum of the following items in the monetary survey:

	End-December 1983 (In billions of dinars)
1. Deposits of Federal Government, other sociopolitical communities and communities of interest for collective consumption with NBY	22.3
2. Excess public sector revenue blocked in accounts with the NBY (excluding deposits of citizens)	4.2
3. Deposits of Federal Government, other sociopolitical communities and communities of interest for collective consumption with basic and associated banks	164.3
4. = (1 + 2 + 3) Total public sector deposits	190.8

5.	NBY credit (including bonds) to Federal Government	83.3
6.	NBY credit (including bonds) to other sociopolitical communities and communities of interest for collective consumption	8.4
7.	Basic and associated bank credit (including bonds) to the Federal Government, other sociopolitical communities and communities of interest for collective consumption	41.7
8.	= (5 + 6 + 7) Total public sector credit	133.4
9.	= (4 - 8) Net asset position of the public sector with the banking system	57.4

2. It is agreed that for 1984 payments from the Community of Interest for Foreign Economic Relations (CIFER) to export producers will be limited as follows. For the customs duty drawback on export production and for subsidies through agricultural funds, rates set in relation to exports will remain unchanged from 1983. Rebates for taxes and contributions out of personal and enterprise incomes, as well as rebates for gasoline coupons for tourists, will be abolished at the end of September 1984. Also, rates of rebates for transportation costs will be halved at the end of September 1984, and subsidies for advertising abroad for tourism and industry will be reduced from 1 percent to 0.5 percent of the value of exports by January 1, 1985. Further, it is understood that 59.7 percent of all customs duties and import fees will continue to be credited to the CIFER. Excess revenue of the CIFER will be transferred to the Federal Government's blocked account with the National Bank of Yugoslavia and thus contribute to the increase in the net asset position of the public sector with the banking system.

3. It is agreed that the net asset position of the public sector with the banking system at the end of December 1984 shall be no less than Din 97 billion, compared with Din 57 billion at the end of December 1983. Further, the authorities will ensure that the net position of the public sector with the banking sector shall be no less than Din 60 billion at the end of June 1984, nor less than Din 85 billion at the end of September 1984.

ANNEX VIII

March 1, 1984

Subject: Technical Note on External Borrowing Limits

In 1984 disbursements on loans with maturities of between one and up to 12 years will be limited to a maximum of US$3.5 billion of which no more than US$1.8 billion will be loans with maturities of less than 5 years. Net drawings on short-term credit with a maturity of less than one year will be limited to US$0.5 billion in 1984. The limits on all maturities include loans contracted by commercial banks and loans contracted directly or guaranteed by the National Bank or any other public sector entity and also include refinancing under multilateral exercises of maturities due in 1984.

ANNEX IX
March 1, 1984

Subject: Technical Note on the Balance of Payments Test

1. The aim of the program is to achieve an increase in the combined convertible external reserves of the National Bank of Yugoslavia and the commercial banks of at least US$500 million during 1984. Given the seasonal pattern of the receipts from services and to some extent from exports, the balance of payments is likely to record an overall deficit during the first half of 1984. Nevertheless, foreign reserves as defined below, and adjusted for any increase in short-term debt, which reached the level of US$1,622 million at the end of 1983, will not be allowed to fall below the level of US$1,500 million at the end of June 1984 and shall increase to at least US$1,800 million by the end of September 1984, and to at least US$2,122 million by the end of December 1984.

2. Convertible external reserves are defined in the following way:

	(In millions of U.S. dollars; end-December 1983)
National Bank of Yugoslavia	
Reserve position in the Fund	55.0
Holdings of SDRs	--
Gold 1/	78.4
Securities	60.7
Foreign exchange	860.5
Total	1,054.6
Foreign assets of commercial banks	567.0
Total foreign reserves of the banking system	1,621.6

1/ Valued at US$42.22 per ounce.

3. For the purpose of the calculation of foreign reserves in 1984, any net increase in short-term debt of the banking system during the period December 31, 1983 to the date in question will be excluded. Short-term debt of the banking system is defined as the sum of short-term debt of the NBY, which amounted to US$176 million on December 31, 1983, and short-term debt of the commercial banks, which amounted to US$964 million on December 31, 1983.