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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

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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, Srebrić, and

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.

Sukovič, Vice Presidents of the Federal Executive Council; Mr. Klemenčič, Federal Secretary for Finance; Messrs. Smole and Reljič, members of the Federal Executive Council; Messrs. Makič and Veljkovič, 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.

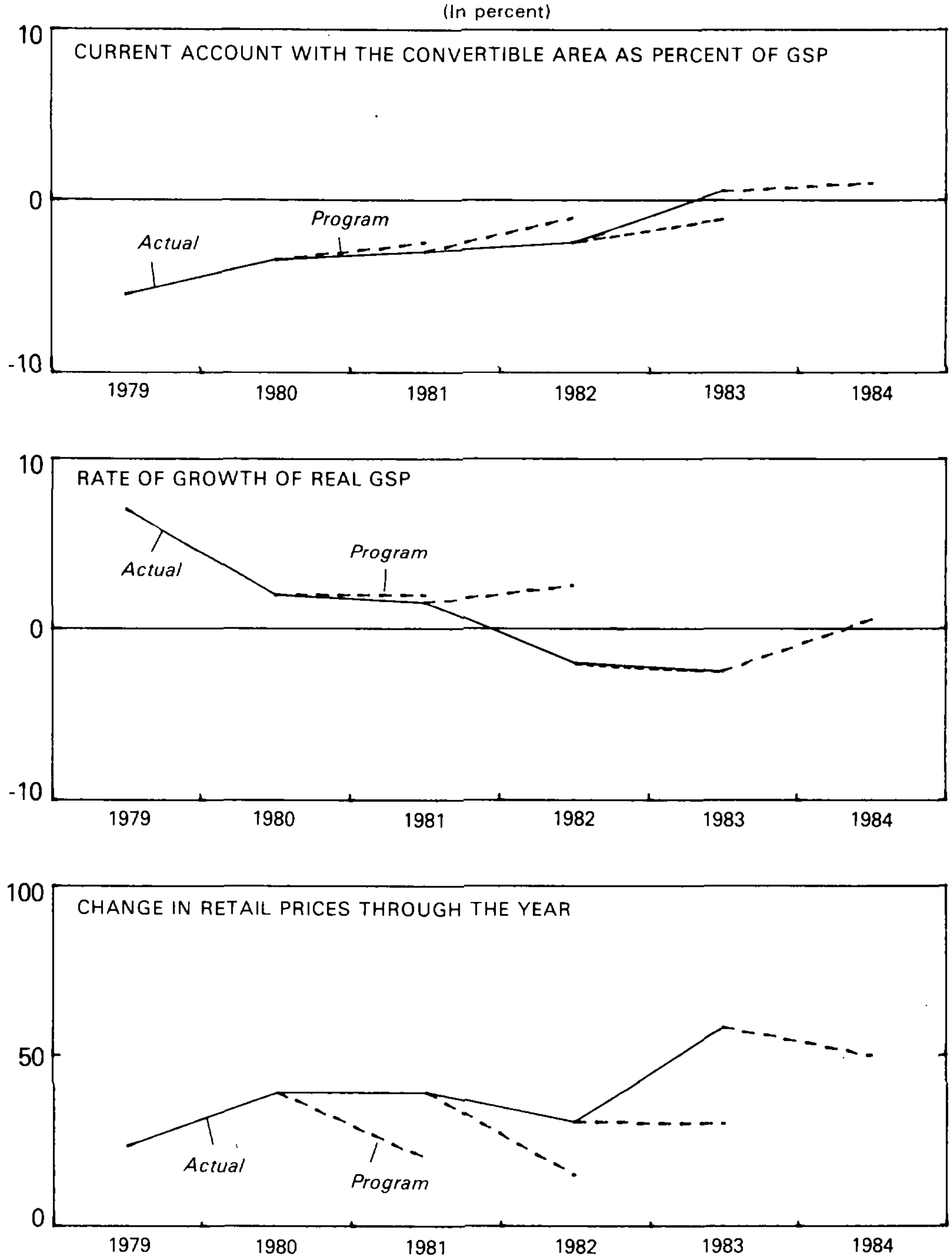
The depreciation of the exchange rate raised export unit values in dinar terms by 100 percent during 1983, compared with 55 percent the year before (Chart 2). Domestic prices followed with a lag. The increase in the retail price index was 58 percent through the year, and 80 percent at an annual rate 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)



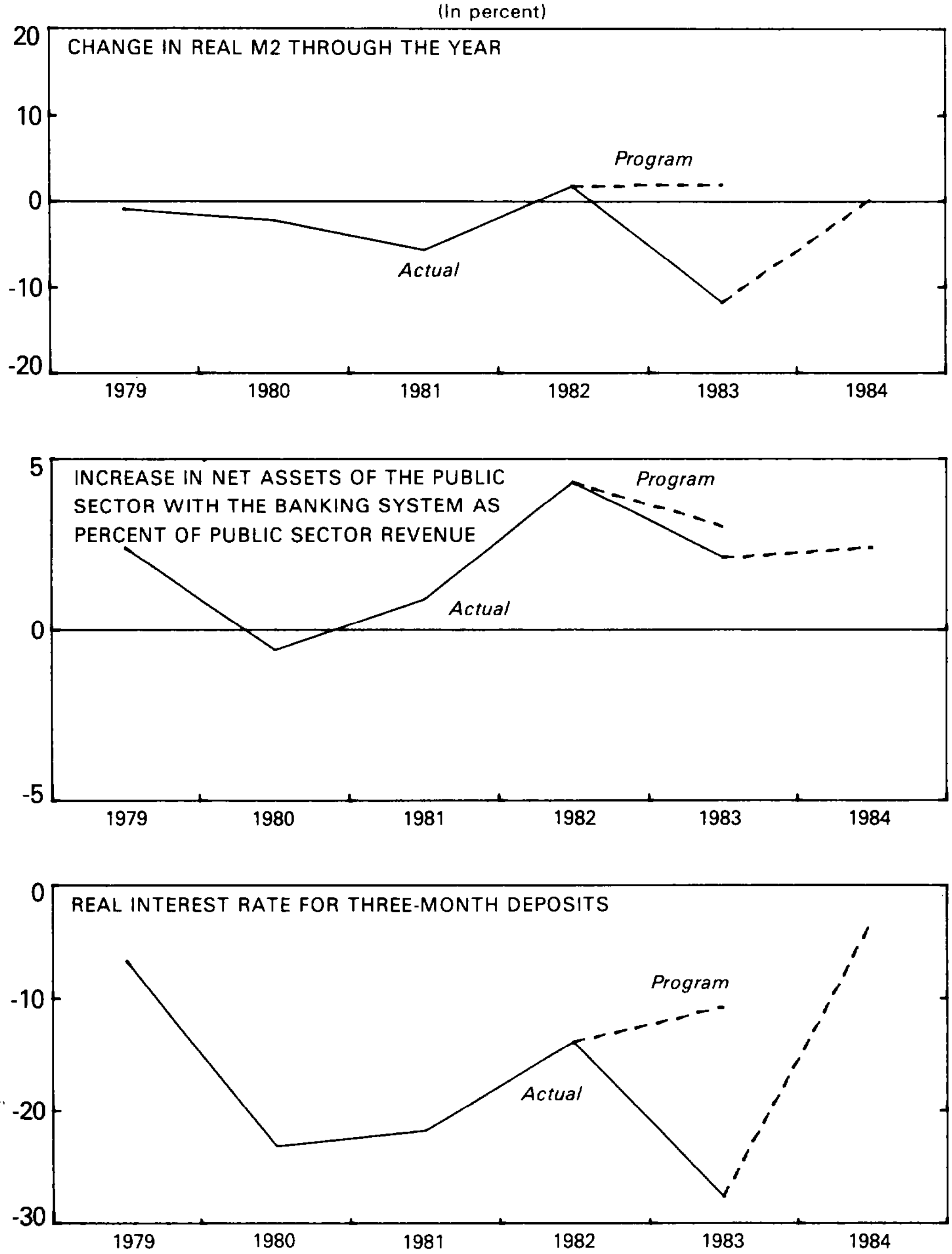
Sources: Yugoslav authorities, and IMF staff.

CHART 1 (continued)

YUGOSLAVIA

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

(In percent)



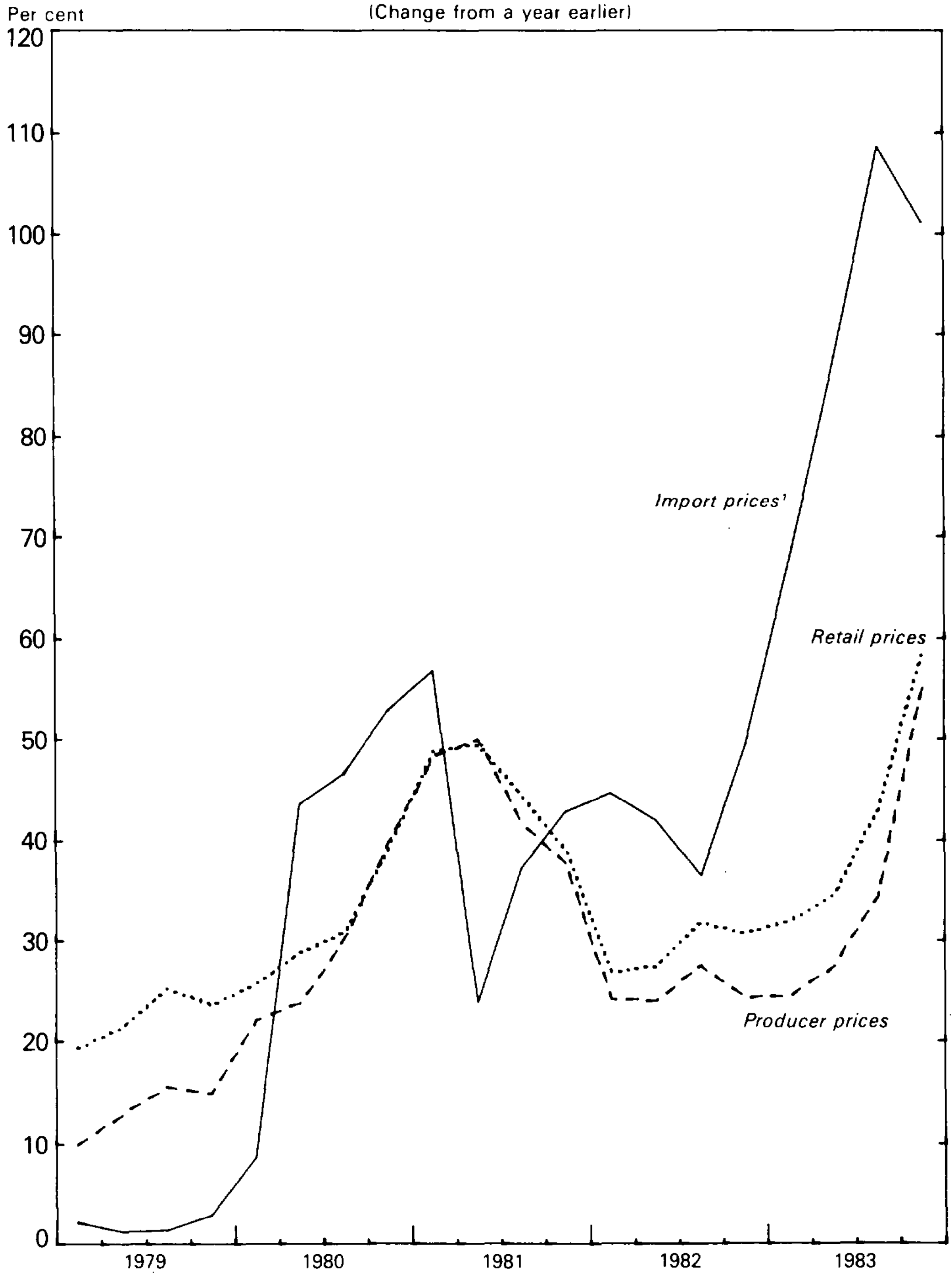
Sources: Yugoslav authorities; and IMF staff.

CHART 2

YUGOSLAVIA

IMPORT PRICES AND DOMESTIC PRICES

(Change from a year earlier)



Sources: Yugoslav authorities, and IMF staff

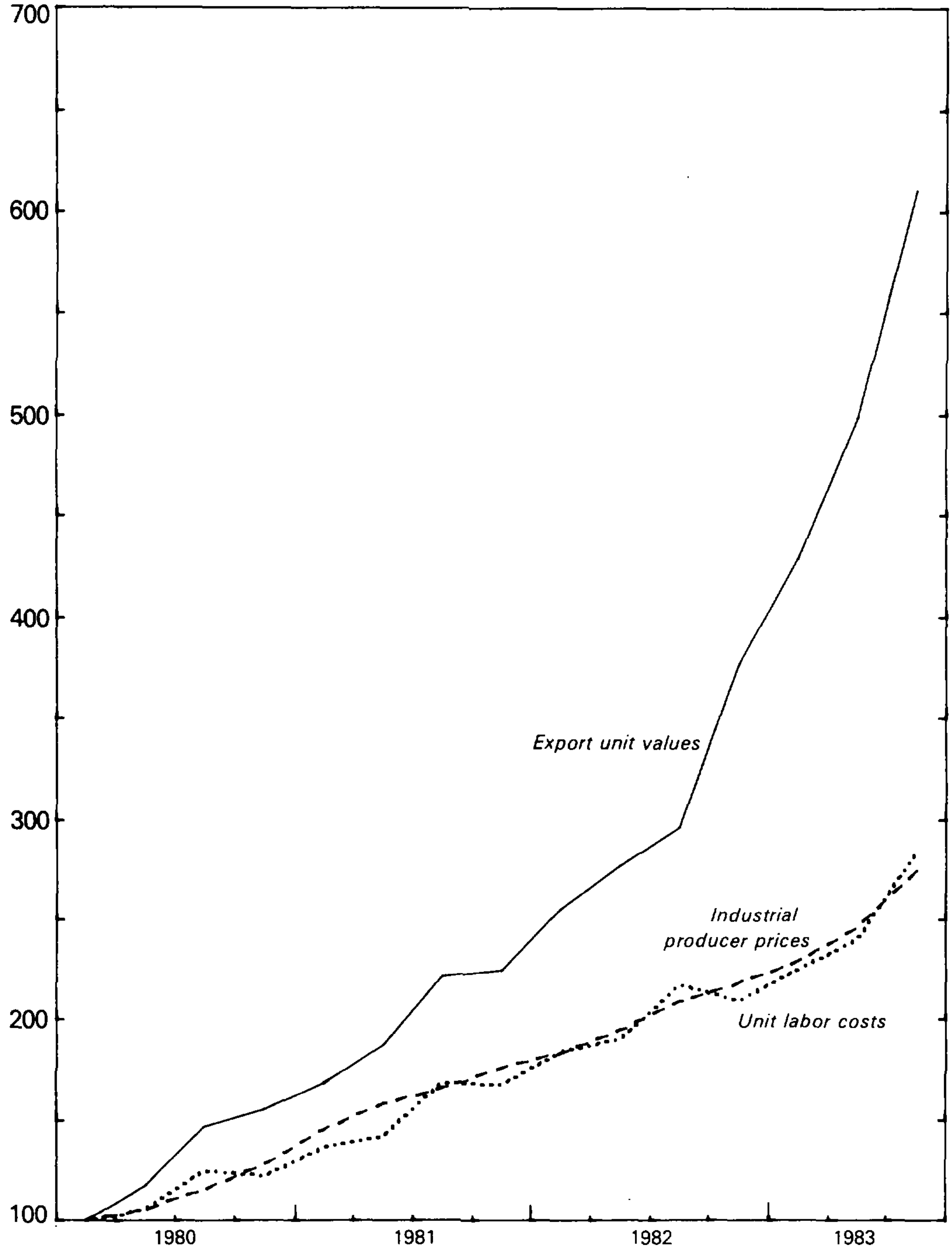
[1] Change in exchange rate for the dinar (dinars per U.S. dollar)

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

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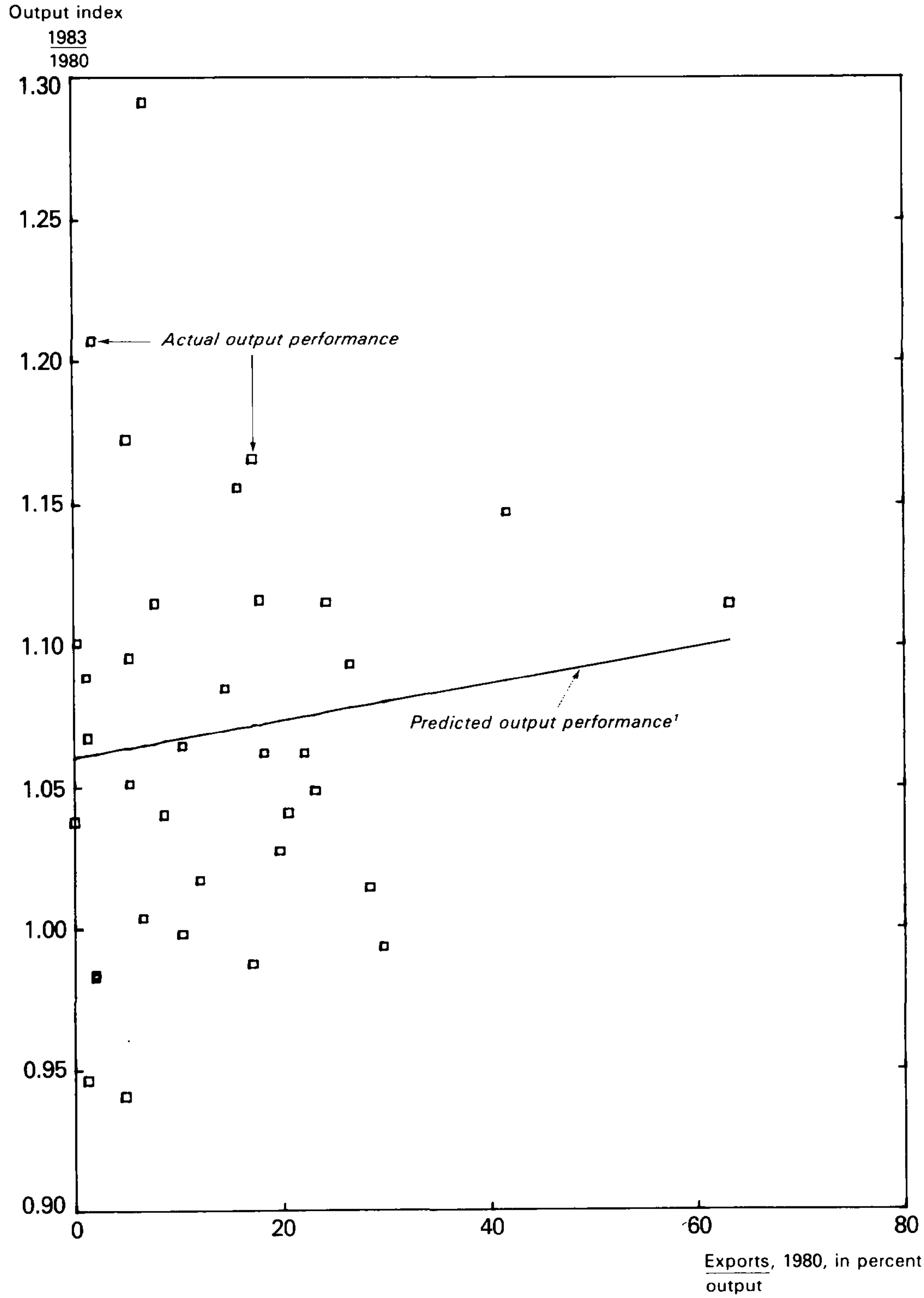
1/ A short-term credit from the BIS was drawn and repaid during the year.

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.

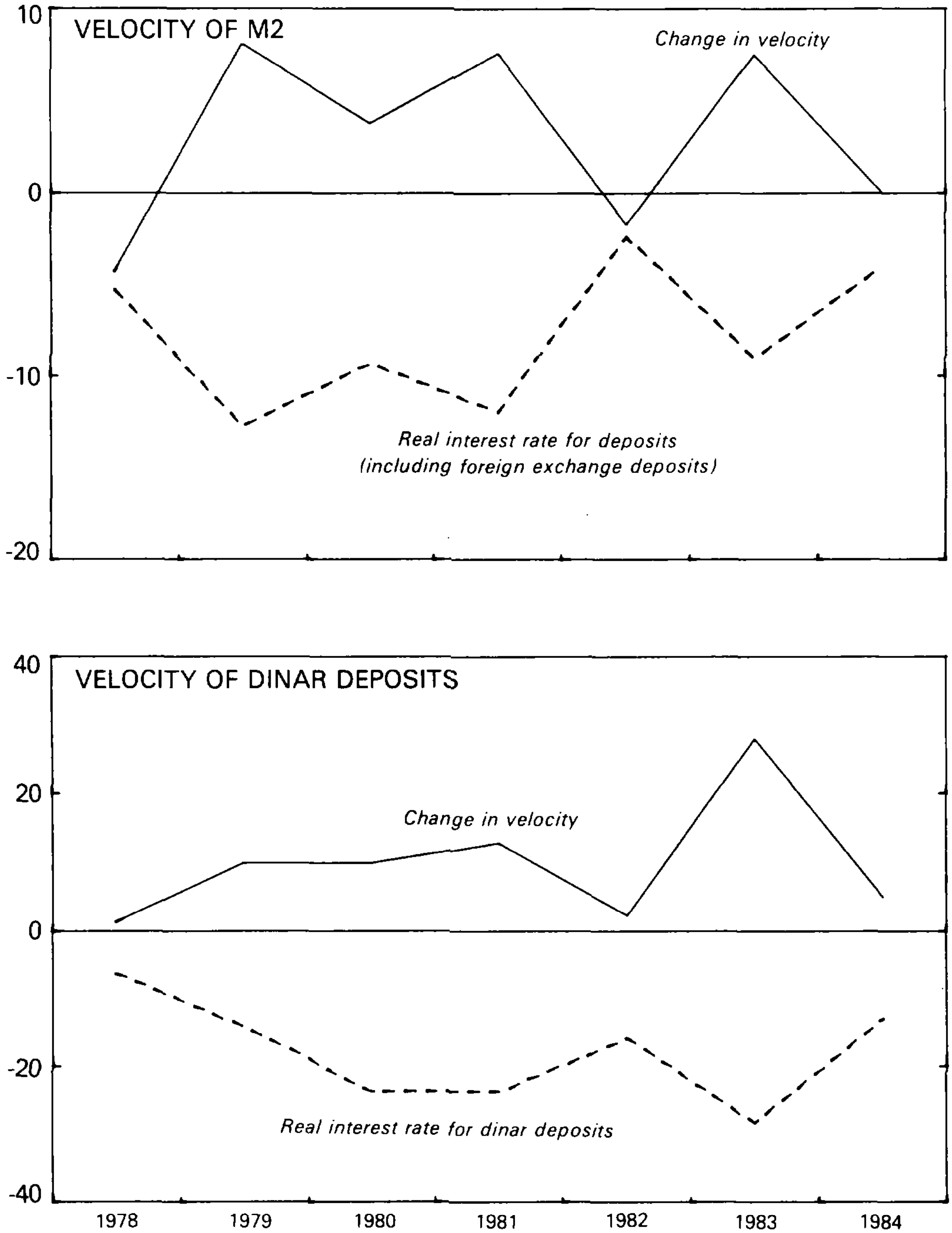
Net of the effects of exchange rate changes, the growth of NDA will be limited to 17 percent in 1984 compared with 11 percent in 1983, to take account of the expected higher rate of price inflation once the price freeze is lifted, and of changes in the velocity of circulation of money once real interest 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 mav 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. <u>Foreign exchange system</u>

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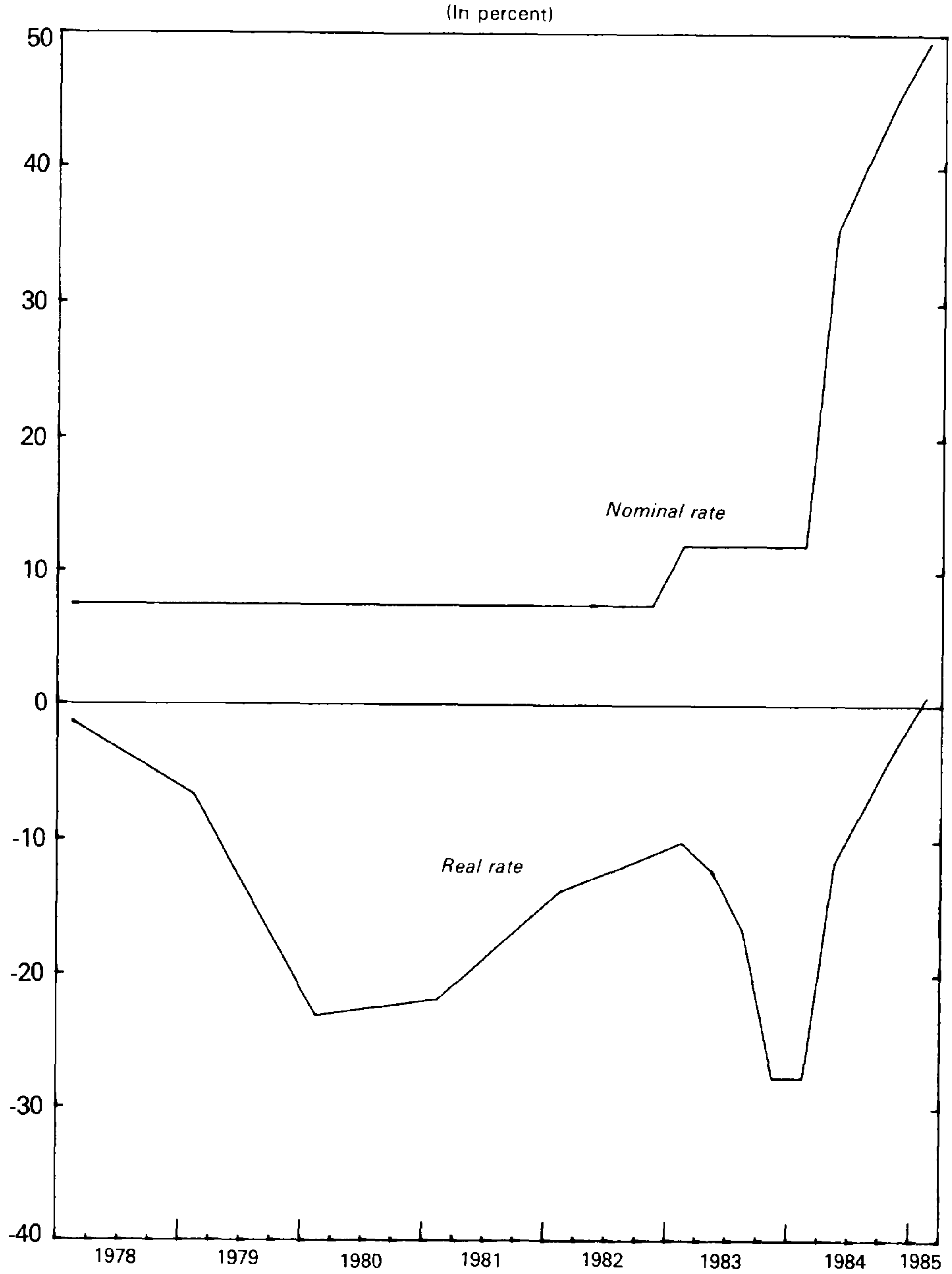
1/ The amendments are described in detail in EBS/83/141 (7/8/83), Annex III.

CHART 6

YUGOSLAVIA

INTEREST RATES FOR THREE-MONTH DEPOSITS

(In percent)



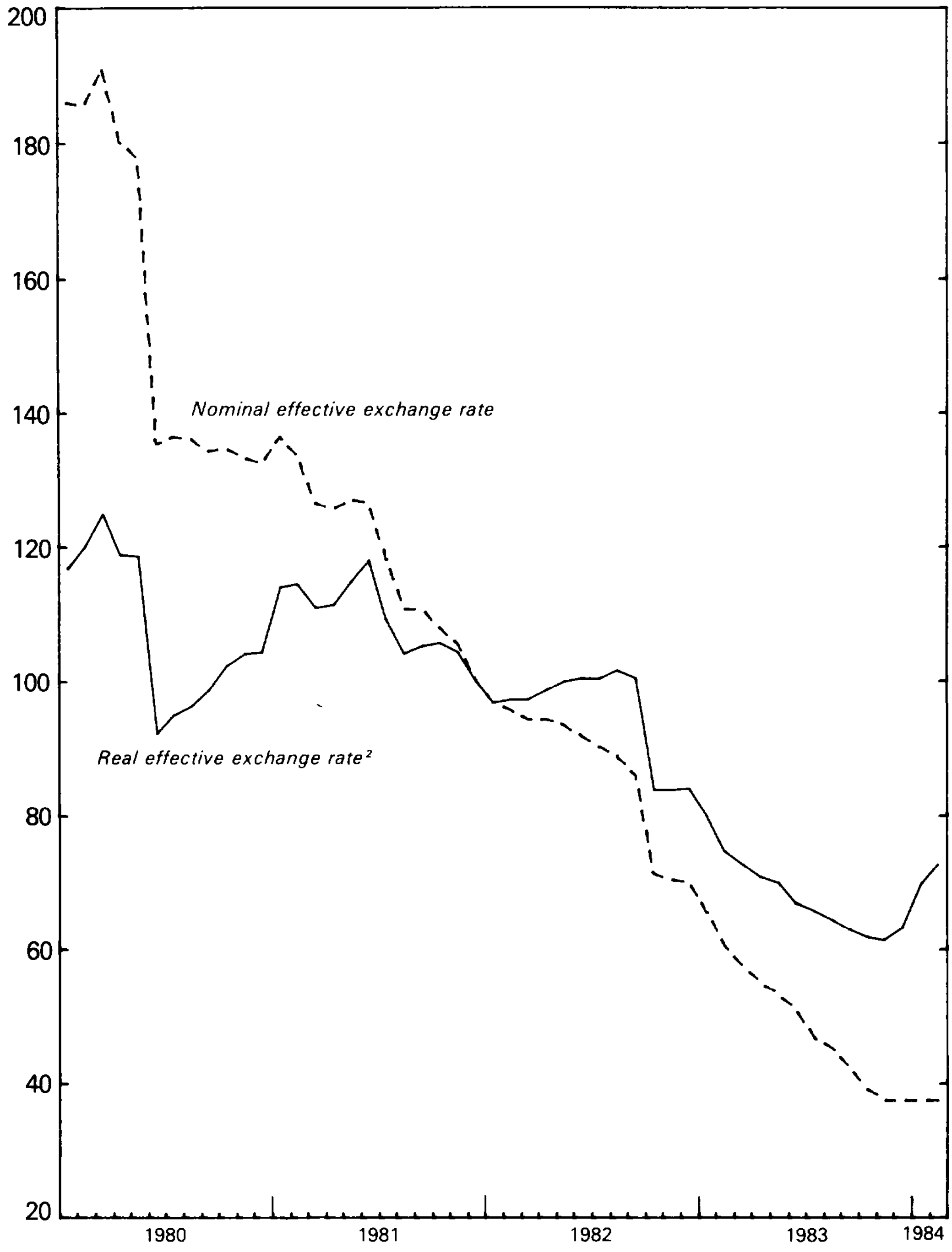
Sources: Yugoslav authorities, and IMF staff

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. <u>The adjustment process</u>

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$55 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 expressed 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 established 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 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 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 Klemenčič
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	$\frac{\text{Jan.-June 1984}}{\text{Jan.-June 1983}}$	$\frac{\text{Oct. 1983-March 1984}}{\text{Oct. 1982-March 1983}}$
Third quarter	$\frac{\text{Jan.-Sept. 1984}}{\text{Jan.-Sept. 1983}}$	$\frac{\text{Oct. 1983-June 1984}}{\text{Oct. 1982-June 1983}}$
Fourth quarter	$\frac{\text{Jan.-Dec. 1984}}{\text{Jan.-Dec. 1983}}$	$\frac{\text{Oct. 1983-Sept. 1984}}{\text{Oct. 1982-Sept. 1983}}$

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	$\frac{\text{Jan.-June 1984}}{\text{Jan.-June 1983}}$	$\frac{\text{Average (6 months to March 1984)}}{\text{Average (6 months to March 1983)}}$
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 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

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	1,760	2,000	2,100
Gross medium- and long-term borrowing	3,660	3,195	2,695	2,550	2,104	1,860	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	2,385	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	1,050
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	2.8	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	854	1,010	1,064	1,124
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	1,135	1,957	2,401
Interest payments	1,489	1,650	1,642	1,574	1,486	1,395	1,314	1,260
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	22.1
Ratio of total debt to GSP	45.2	47.7	43.2	38.8	34.1	29.5	25.8	22.9
Real GSP growth (in annual percent change)	-2.5	0.6	3.7	2.6	3.5	5.9	5.3	5.1
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	3,553
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
Repurchases from the IMF	184	282	337	380	404	465	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	20.5	7,167	20.9	71.3	105.0	-7.4	104.0	-7.1
1981	9,846	33.6	9,675	35.0	100.0	100.0	-4.8	100.0	-3.8
1982	12,542	27.4	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						Revenue for Collective Consumption 3/	Total Public Sector Revenue
	Budgets			Community of Interest for Foreign Economic Relations 1/	Other	Total 2/		
	Federation	Republics, provinces	Local governments					
	(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 Dec.	1981 Dec.	1982 March	1982 June	1982 Sept.	1982 Dec.	1983 March	1983 June	1983 Sept.	1983 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 June	1982 Oct.	1983 Feb.	1983 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		1984
			Program	Revised estimate	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.