

DOCUMENT OF INTERNATIONAL MONETARY FUND
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**IMMEDIATE
ATTENTION**

EBS/83/217

CONFIDENTIAL

October 4, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Yugoslavia - Review of External Financing Package

It is not proposed to bring the attached memorandum to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Friday, October 7, 1983. In the absence of such a request, the draft decision will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Att: (1)

INTERNATIONAL MONETARY FUND

Yugoslavia - Review of External Financing Package

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

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

Approved by L.A. Whittome and Subimal Mookerjee

October 4, 1983

The Executive Board decided during its mid-term review of the stand-by arrangement with Yugoslavia (EBS/83/141, 7/8/83) that further purchases by Yugoslavia are to be contingent upon communication to the Fund by the International Coordinating Committee of banks (ICC) of the availability date for the first advance under the medium-term external bank financing agreement with Yugoslavia. This reflected a wish to be assured that all the elements of the inter-related financial package for Yugoslavia were in place before further purchases were made by Yugoslavia from the Fund.

As described in EBS/83/141 (7/8/83), the joint financial package for Yugoslavia included (i) financial arrangements with banks, consisting of a medium-term facility (refinancing of medium- and long-term maturities falling due in 1983 and US\$600 million of new medium-term money) and the rollover or refinancing of existing short-term credits; (ii) a two-tranche US\$500 million credit by the BIS; (iii) a World Bank structural adjustment loan amounting to US\$275 million; and (iv) an intergovernmental financial support package, mainly in the form of export credits, for a total amount estimated by the staff at about US\$1.3 billion.

There have been several delays in the signing of the agreements with banks. However, having obtained firm commitments from banks amounting to more than US\$600 million in new money and a sufficient number of commitments to the refinancing of maturities falling due in 1983, members of the ICC signed the agreements with the Yugoslav representatives on September 9, 1983. Satellite signings will take place in New York and in Europe between September 30, 1983 and October 8, 1983.

The other remaining element in the overall financial package was the full disbursement of the US\$500 million BIS credit. The release of the second tranche of US\$200 million was delayed pending the receipt of waivers from all the relevant banks in respect of negative pledge clauses in outstanding loan agreements. All such waivers have now been obtained and the second tranche of the BIS credit was disbursed on September 12, 1983.

All the financial preconditions for the release of the first advance of the new medium-term credit from commercial banks will thus be met, including communication to the ICC on the status of the intergovernmental package (the Berne agreement), of the agreement with the IMF, and of the World Bank structural adjustment loan.

On this basis, the ICC sent to the Fund on September 29, 1983 the attached communication identifying October 24, 1983 as the availability date for the first advance under the medium-term external bank financing agreement with Yugoslavia. In view of this communication, it is proposed that the Executive Board find that the performance criterion relating to the communication of the availability date is met, thus permitting Yugoslavia to proceed with the next purchase.

All other performance criteria with the exception of that on external arrears have been met. The average of end-month data for net domestic assets for the second quarter of 1983 was Din 2,814 billion, or below the limit of Din 2,824 billion agreed in the stand-by arrangement. The staff has obtained adequate assurance that the intention of the Yugoslav authorities to freeze Din 10 billion of excess public sector revenue, as described in EBS/83/141, Supplement 1, has now been implemented.

Under the July Board decision, a waiver of the performance criterion regarding external arrears was granted through September 30, 1983, on the understanding that arrears to banks would be eliminated automatically by the time of the disbursement of the first bank advance, either directly or through the use of an escrow account; any remaining arrears would be eliminated shortly thereafter with the proceeds from the loan. Given that the disbursement date has now been postponed until late October, it is proposed to extend the waiver until November 15, 1983.

In view of the foregoing the following draft decision is proposed for adoption by the Executive Board:

1. The Fund has received a communication from the International Coordinating Committee of banks dated September 29, 1983 and attached to EBS/83/217, relating to the availability date for the first advance under the medium-term external bank financing agreement with Yugoslavia. In the light of this communication, the Fund determines that the requirement in paragraph 3(b) of Executive Board Decision No.7483-(83/114, 7/29/83) is met.
2. The Fund extends, until November 15, 1983, the waiver of the application of the performance criterion specified in paragraph 3(c) (i) of the stand-by arrangement in EBS/81/5, Supplement 2, February 2, 1981, in respect of arrears existing during 1983.

To: International Monetary Fund
Washington D.C.

Attention: Mr. Jacques de Larosiere
Managing Director

Subject: Yugoslavia: 1983 Financing Arrangements

I refer to the various discussions between my associates and Messrs. Alan Whittome and Paul Mentre:

I am pleased to confirm to you that the signing of the financing agreement with Yugoslavia, for which we act as an agent, took place on September 9 in New York between Yugoslav representatives and the banks participating in the International Coordinating Committee. Satellite signings will take place in New York and other financial centers between September 30 and October 8. However before they signed the document in New York, the members of the International Coordinating Committee satisfied themselves as far as this is possible that an aggregate sum of U.S. dollars 600 million will be committed by the participating banks and will be made available to the Yugoslavs during the remainder of 1983 in accordance with the conditions of the financing agreement. This sum is, of course, in addition to the other parts of the bank package of which the Fund is fully aware.

Pursuant to section 2.03 of the agreement, the first availability date will occur not earlier than ten working days following the effective date. Given the present schedule, this will fix the first date upon which the funds will be available as October 24. This is always, of course, subject to the satisfaction of the conditions set forth in section 8.02 of the loan agreement.

May I thank you for your cooperation in relation to this important restructuring agreement. I trust that the information given in this telex will be sufficient for your purposes.

Regards,

Harry Taylor, President/MANTRUST
Douglas E. Ebert, Executive Vice President/MANTRUST
Fulvio V. Dobrich, Senior Vice President/MANTRUST