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FOR
AGENDA

EBS/83/46
Correction 1

CONFIDENTIAL

March 10, 1983

To: Members of the Executive Board

From: The Acting Secretary

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

The following corrections have been made in EBS/83/46
(2/24/83):

Page 15, Table 7: Revised

Page 16, Table 8, line 1, column 6: for "-583.9" read "-587.9"
line 5, column 5: for "1,120.0" read "1,210.0"
column 6: for "1,385.6" read "1,386.7"
line 6, column 6: for "-340.7" read "-345.2"

Page 38, draft decision: an additional paragraph has been added.
Paragraph c. now reads "After May 14, 1983...
sufficient; or" and paragraph d. reads "After
August 14, 1983,...observed."

Page 54, para. I, line 6: for "Din 2,840.4 billion" read
"Din 2,845.7 billion"
line 7: for "Din 2,709.3 billion" read
"Din 2,714.4 billion"
line 9: for "Din 2,755.7 billion" read
"Din 2,758.2 billion"
line 10: for "Din 2,818.8 billion" read
"Din 2,823.8 billion"

Corrected pages are attached.

Att: (4)

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

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

Sources: National Bank of Yugoslavia; and staff estimates.

a/ Preliminary.

1/ Adjusted for exchange rate changes.

2/ Percentage changes at annual rates.

Table 8. Yugoslavia: Monetary Survey, 1980-82
(In billions of dinars)

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

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

1/ Preliminary estimates.

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

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

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

b. during any period in which:

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

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

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

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

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

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

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

5. The Fund waives the application of the performance criterion in the first subparagraph of paragraph 3 of Decision No. 7058-(82/23) (Review and Consultation under Stand-by Arrangement, adopted February 22, 1982) and waives until August 14, 1983 the application of the performance criterion in paragraph 3(c)(1) of the stand-by arrangement in EBS/81/5, Supplement 2, (February 2, 1981) in respect of the arrears existing during 1983.

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

December 30, 1982

AGREED MEMORANDUM OF UNDERSTANDING

Subject: Technical Note on External Borrowing
by the Banking System

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

Supplement to Letter of Intent dated December 30, 1982

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

I. Technical amendment to page 4, paragraph 6

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

II. Technical amendment to page 4, paragraph 3

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

III. Technical amendment to page 4, paragraph 4

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

If developments in final domestic demand at the time of the review with the Fund have not been in line with the Government's goal set out on page 2 of the Letter of Intent, the Government will seek ways and means not to return revenue surpluses accruing to the individual public