

EBS/83/46
Correction 2

CONFIDENTIAL

March 28, 1983

To: Members of the Executive Board

From: The Secretary

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

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

Page 5, line 8: for "amounted to US\$2,586 mil-"
read "amounted to US\$1,682 mil-"

Page 10, para. 3, line 7: for "a surplus of US\$477 million"
read "a surplus of US\$557 million"

Page 13, para. 2, penultimate line: for "in terms of the U.S. dollar, but"
read "in terms of the official currency
basket but"

para. 4, line 3: for "fallen by 1 percentage point, to 34.4 per
cent," read "fallen by about 1/2 percentage
point, to 35.0 per cent,"

Page 45, line 1: for "at least 4-1 per cent" read "at least 4-5 per cent"

Page 51, tabular material, line 3: for "Quasi-money 1,040.3"
read "Quasi-money 1,030.0"

Corrected pages are attached.

Att: (5)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

YUGOSLAVIA

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

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

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

Approved by L. A. Whittome and Subimal Mookerjee

February 23, 1983

I. Introduction

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

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

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

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

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

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

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

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

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

II. Background

1. Medium-term context

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

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

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

Table 3. Yugoslavia: External Debt Disbursed and Outstanding
(In millions of U.S. dollars; end of period)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The preliminary outturn for the public sector accounts shows a small surplus in 1982 and the share of public sector expenditures in GSP is estimated to have fallen by about 1/2 percentage point, to 35.0 per cent, in 1982 compared with 1981. As regards credit policy, the National Bank found that the use of quarterly ceilings on the credit extended by the banking system had permitted significant intraquarter variations; it therefore, has imposed monthly ceilings. Although bank credit rose just fractionally more than had been programmed, the rise of money supply, M1, as well as that of quasi-money, appears to have exceeded that estimated as being consistent with the criteria incorporated in the 1982 stabilization plan by a considerable margin. M1, according to preliminary data, has

risen by almost 27 per cent during the 12 months ending December 31, 1982, over 10 percentage points more than the 15.5 per cent planned, and just about 2 percentage points less than nominal GSP. The dinar component of quasi-money is estimated to have risen by 19.2 per cent over the same period (Tables 7 and 8).

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

III. Policies and Prospects for 1983

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

1. Policies

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

^{1/} On the basis of official estimates.

^{2/} Excluding use of Fund credit, but including errors and omissions.

* →
Additional
Paragraph

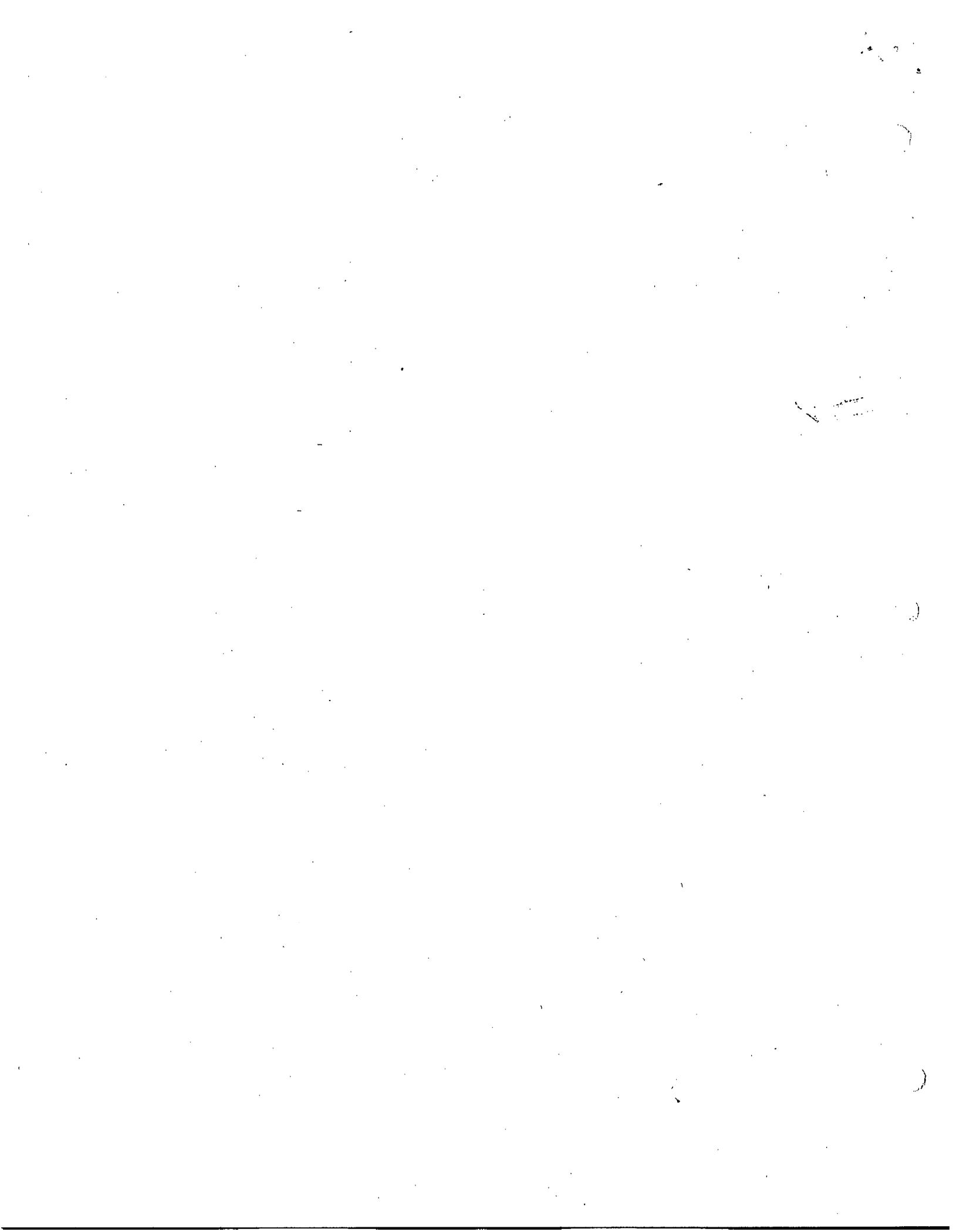
c. After May 14, 1983, if the progress toward the provision of external bank financing for Yugoslavia, as regards amount and timing, is not sufficient; or

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)(i) of the stand-by arrangement in EBS/81/5, Supplement 2, (February 2, 1981) in respect of the arrears existing during 1983.

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



account position of at least 4-5 per cent of GSP over the period of the stand-by arrangement. To achieve such a result, it will be necessary to ensure a decline of domestic demand even larger than the declines of the preceding two years. Nominal personal incomes growth will be restrained severely and real personal income per worker is to fall by 7 per cent. No new investment will be authorized except in priority sectors such as exports and energy. Public sector consumption will continue to be restrained as well. The fall in domestic demand is expected to ease price pressures, but to ensure a further decline in the rate of inflation, the measures limiting price increases will be continued into 1983. The policy program is designed to obtain the necessary improvement in the external financial situation in both 1983 and over the medium term. To these ends policies that should show quick results will need to be bolstered by policies that lead to a shift of resources into the export sector, that increase productivity, enhance savings and ensure an efficient allocation of capital resources.

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

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

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

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

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

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

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

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

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

December 30, 1982

AGREED MEMORANDUM OF UNDERSTANDING

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

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

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

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

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

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

December 30, 1982

Yugoslavia: Interest Rate Schedule

(Per cent per annum)

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

1/ Based on average amounts outstanding for 1983 as estimated by the National Bank of Yugoslavia.

2/ Organizations of Associated Labor.

3/ Effective end-January, 1983.

4/ Rates on: credits for exports 8 per cent, agriculture 10 per cent, imports 12 per cent, other 12 per cent.

5/ Rates on deposits for 1 year 18 per cent, 2 years 23 per cent, 3 years 28 per cent.