

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/88/89
Correction 1

CONFIDENTIAL

May 9, 1988

To: Members of the Executive Board
From: The Secretary
Subject: Yugoslavia - Letter of Intent

The following corrections have been made in EBS/88/89 (4/29/88):

Letter of transmittal from the Yugoslav authorities inadvertently omitted

Page 14: insert paragraph e

Page 25: add last paragraph

A new and corrected pages are attached.

Att: (3)

COPY

NATIONAL BANK OF YUGOSLAVIA
Governor

Belgrade, April 22, 1988

Dear Mr. Camdessus,

We are attaching our Memorandum on the Presentation of the Yugoslav Economic Policy Objectives Under a Stand-By Arrangement with the Fund, which sets out both our short- and medium-term objectives for strengthening the economy and the policies that we will pursue to attain them. We believe that our strategy of cautious demand management, coupled with decisive and timely action to introduce systemic reforms, should enable Yugoslavia to realize its economic potential and achieve its social objectives. In support of our program, we request on behalf of the Federal Executive Council of the Socialist Federal Republic of Yugoslavia, a one-year stand-by arrangement with the Fund in an amount equivalent to SDR 306 million.

As noted in our Memorandum, the Yugoslav authorities will consult with the Fund as soon as is practicable after September 1988 and, in any case, no later than November 30, 1988, 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 measures that may become appropriate.

Sincerely,

/s/
Dusan Vlatković
Governor
National Bank of Yugoslavia

/s/
Svetozar Rikanovic
Federal Secretary for
Finance

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Subject: Technical Note on the Net Domestic
Assets (NDA) of the Banking System

1. NDA of the banking system

a. 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 1987

(in billions of dinars)

Net foreign liabilities	15,612.7
Plus M2 (money and quasi-money)	29,418.5
Minus public sector deposits	1,589.6
Net domestic assets	<u>43,441.6</u>

b. In setting the ceilings for NDA of the banking system, the effects of changes in the exchange rates from the base date (end-December 1987) on the net foreign liabilities of the banking system, and on the foreign currency liabilities which are included in quasi-money, are excluded by applying the necessary valuation adjustment (cumulative from end-December 1987). Details on these calculations including information on the currency composition of foreign currency denominated assets and liabilities, will be provided to the Fund staff. 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.

c. The indexed component of quasi-money will be revalued at the end of each month on the basis of the actual rate of inflation as measured by the retail price index (RPI), which becomes available at the beginning of the following month. For monitoring purposes, since the actual rates of inflation will not be known before the test-date at the end of each quarter, the targeted rather than the realized monthly rate of inflation will be used for the last month of the quarter for revaluing the principal of indexed deposits at the end of each current quarter. (Thus, the actual rates of inflation will be always used for monitoring developments in the 1st and 2nd months of the current quarter as well as for all other past dates.)

d. If, on the basis of data for the two preceding months, the monthly actual rate of inflation has exceeded the targeted rate of inflation, the revaluation in the last month of the current quarter would be based on the targeted rate of inflation for the last month of the quarter plus the excess of the actual over the targeted monthly rate of inflation in the two preceding months. Symmetrical adjustments will be made if the actual monthly rate of inflation in the preceding two months has fallen short of the targeted rate of inflation for these

Subject: Technical Note on Definition of Net Foreign Assets

For purposes of monitoring performance under the program, net foreign assets of the banking system will be defined to include all assets and liabilities shown in the attached table except for the holdings of the National Bank of Yugoslavia (NBY) shown in lines I.4.b and I.4.c. Bridge financing (i.e., short-term liabilities incurred in any quarter in anticipation of new financial medium- and long-term credits other than from the Fund identified at the outset of the program to be disbursed in the same or previous quarters) is excluded from this definition. Gold will be valued at US\$42.22 per troy ounce and the U.S. dollar equivalent of foreign reserves and liabilities will be derived using the cross rates prevailing as of December 31, 1987. Defined in this manner, net foreign assets of the banking system stood at minus US\$1,543 million at the end of December 1987.

If cumulative disbursements of new financial medium- and long-term credits fall short of anticipated levels (identified at the outset of the program as US\$475 million, US\$925 million, and US\$1,000 million cumulatively for the second, third, and fourth quarters of 1988, respectively) by up to US\$200 million, the NDA targets under the program for the respective quarters will be adjusted downwards by one half of the amount of the shortfall.