

EBS/66/262
Supplement 1

CONFIDENTIAL

December 7, 1966

To: Members of the Executive Board
From: The Secretary
Subject: Yugoslavia - Stand-By Arrangement

Attached for the records of the Executive Directors is the text of the stand-by arrangement with Yugoslavia agreed at Meeting 66/89, December 7, 1966.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

Stand-by Arrangement--Yugoslavia

1. Annexed hereto is a letter dated October 27, 1966 from the Federal Secretary for Finance of Yugoslavia, which sets forth the policies and intentions which the authorities of Yugoslavia will pursue.

2. In consideration of the policies and intentions set forth in the annexed letter, the International Monetary Fund agrees to a stand-by arrangement to support these policies and intentions.

3. Yugoslavia and the Fund will remain in close consultation during the period the stand-by arrangement is in effect. This consultation may take the form of correspondence and visits of officials of the Fund to Yugoslavia or of representatives of Yugoslavia to Washington, D.C. In addition, Yugoslavia will keep the Fund informed of developments in the exchange, trade, monetary, credit and fiscal situations through reports at intervals or dates requested by the Fund during the period the stand-by arrangement is in effect.

4. For a period of one year from January 1, 1967, Yugoslavia will have the right to purchase from the Fund the currencies of other members in exchange for its own currency in an amount equivalent to US\$45 million, provided that purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of US\$25 million prior to March 31, 1967 and US\$35 million prior to September 30, 1967. The right of Yugoslavia to make purchases under this stand-by arrangement shall, to the extent that such purchases would increase the Fund's holdings of Yugoslav dinars above the level of the quota of Yugoslavia, be subject to paragraph 6 below. The amounts referred to in this paragraph 4 shall be augmented by amounts equivalent to repurchases in respect of purchases under the stand-by arrangement, unless when any such repurchase is made, Yugoslavia informs the Fund that it does not wish the stand-by arrangement to be augmented by the amount of that repurchase.

5. Yugoslavia will pay charges for this stand-by arrangement in accordance with the decisions of the Fund of December 23, 1953, April 27, 1959, and May 23, 1962.

6. If at any time while the stand-by arrangement is in effect the list of liberalized imports contained in the Federal Executive Council's Decision No. 446, 1966, is reduced, or the ceiling on short-term bank credit is exceeded, the Government of Yugoslavia will consult the Fund, and prior to any further drawings will agree with it on the terms on which such further drawings may be made.

7. Subject to paragraph 4 above, Yugoslavia will have the right to engage in the transactions covered by the stand-by arrangement without further review by the Fund. This right 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 (under Article XVI, Section 1(a)(ii)) 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 7, purchases under this stand-by arrangement will be resumed only after consultation has taken place between the Fund and Yugoslavia and agreement has been reached on the terms for the resumption of such purchases.

8. Not later than three years after each purchase of exchange by Yugoslavia under this stand-by arrangement, Yugoslavia shall repurchase from the Fund an equivalent amount of Yugoslav dinars; provided that if the Yugoslav dinars held by the Fund as a result of transactions under this arrangement are reduced by repurchases under Article V, Section 7, or otherwise, such reductions shall be credited against the earliest amounts that become payable under this paragraph 8. Repurchases shall be made in gold or convertible currencies acceptable to the Fund in accordance with the Fund's decision of July 20, 1962.

C
O
P
Y

- 3 -

Beograd, October 27, 1966

Dear Mr. Schweitzer:

In my letter to you of July 1, 1965, subsequently annexed to the stand-by arrangement of July 23, 1965, I outlined the program for a comprehensive economic reform which my Government shortly thereafter introduced. The first phase of the reform has been carried out resolutely and, generally, with encouraging results. The Yugoslav Government continues to be firmly committed to the policy objectives outlined in the above-mentioned letter and believes that the reform concept continues to represent a solid foundation for further sustained growth and improvement in the standard of living, to be achieved through rising productivity and increased participation of Yugoslavia in world trade.

My Government now considers it possible to proceed with the implementation of the liberalization of imports. The measures already announced consist of a liberalization of the foreign exchange and import systems and of a gradual dismantling of the administrative regulation of prices.

The liberalization of the foreign exchange and import regimes will be based on laws passed by the Parliament in July 1966. The measures shall become effective on January 1, 1967. The liberalization of imports will apply to commodities as set forth in Decision 446/66.

With the liberalization of imports it became essential to regulate exports and imports from countries with which Yugoslavia maintains bilateral payments agreements. These regulations are designed to establish balanced trade with the bilateral area. Some of the commodities imported from this area may without limit be imported from the convertible currency area.

Liberalized imports are estimated to account for 32 per cent of the anticipated level of Yugoslavia's imports from the convertible area in 1967. With the inclusion of the imports referred to in the previous paragraph, the figure for 1967 is expected to be somewhat over 50 per cent of imports from the convertible currency area.

On a temporary basis, we intend to maintain certain arrangements designed to promote our exports. Under the retention quota arrangement each exporter will retain a certain non-transferable share of his export proceeds. The retained amount is intended mainly for payments of imports of equipment required for their own needs. It is the Government's firm intention not to increase the impact or scope of the present arrangements and to work toward their eventual abolition.

It is the Government's policy to gradually decontrol domestic prices on commodities as restrictions on imports are reduced. The increased competition from imports, together with the relatively stable conditions already established in the domestic economy, are expected to minimize any price increases which might follow the decontrol.

In view of the present low level of convertible currency reserves, and as the liberalization of imports may result in a temporary strain on the balance of payments the Yugoslav Government requests a stand-by arrangement for the period January 1, 1967 to December 31, 1967, in the amount of the equivalent of US\$45 million, to be augmented by the amount of any repurchases in respect of purchases under the requested stand-by arrangement.

Purchases under the stand-by arrangement shall not exceed the equivalent of \$25 million prior to March 31, 1967 and the equivalent of \$35 million prior to September 30, 1967. The Yugoslav Government recognizes that it will remain desirable to restrain domestic demand while the initial impact of the import liberalization is being absorbed and is prepared to introduce further stabilization measures if the import liberalization should begin to cause a serious drain on the external reserves.

In order to reduce the impact of the import liberalization on the external reserves, and to strengthen internal stability, it is the policy of the Government to achieve a balance or a surplus in its operations (including its extrabudgetary operations) in both 1966 and 1967. The Government will consider use of the available fiscal instruments to absorb excess liquidity in the economy and to neutralize it by using a possible budgetary surplus for repayment of the Federal debt to the National Bank. The Government will continue to use its influence to coordinate the financial policies of the local governments and the autonomous social funds with the requirements of the stabilization effort.

The National Bank of Yugoslavia will adjust its policies and regulations so that the amount of short-term bank credit outstanding does not exceed Din 43 billion during 1967.

The Government will continue to support measures which facilitate adherence to the incomes policy adopted in the context of the reform. This policy limits the rise in personal incomes to the growth in productivity. The Government will encourage the economic organizations to apply caution in distributing their incomes, to increase their inventories and financial reserves, and to concentrate investment on improvements in productivity and competitiveness. The Government intends to promote investment in facilities which may be expected to yield rapid foreign exchange returns.

The Yugoslav Government remains concerned about the burden of large foreign debt repayments in 1967-68, and will continue its efforts to renegotiate these commitments.

I should like to reiterate that Yugoslavia resolutely desires to reduce its bilateral payments relations with Fund members. As a first step we undertake to terminate shortly at least two such agreements. We should like to note that cooperation of the partner countries is of importance in this matter.

Before making purchases under this requested stand-by arrangement with the International Monetary Fund, the Government of Yugoslavia will consult with the Managing Director on the particular currencies to be purchased from the Fund.

The Government of Yugoslavia will continue to maintain close contact with the Fund and will, at the request of the Managing Director, enter into consultation with the Fund. The Yugoslav Government has found it helpful to review the economic situation with the Fund and will undertake such a review in March-April 1967. The Government would like to reiterate the undertaking in the letter of July 1, 1965, to consult the Fund in accordance with the terms of that letter should any major changes in the economic policy become desirable.

Sincerely yours,

/s/ Kiro Gligorov

Mr. Pierre-Paul Schweitzer,
General Manager
International Monetary Fund
Washington, D.C.