

**FOR
AGENDA**

EBS/81/170
Correction 1

CONFIDENTIAL

August 20, 1981

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

The following corrections have been made in EBS/81/170 (8/17/81):

Page 16, column March 31, 1981, line 2: for "90.0" read "90.2"
column June 30, 1981, line 7: for "0.9" read "1.0"
line 8: add "0.9"

A corrected page is attached.

Att: (1)

circumstances, it should be possible to remain within existing credit ceilings without prejudicing the planned growth of output. Liquidity may become particularly tight in some sectors of the economy and some regions of the country, but in the staff view the solution to such problems, should they become acute, would be a redistribution of planned credit increases rather than an across-the-board increase in total credit.

There appears to be a welcome degree of fiscal restraint at all levels of government. Indeed, the determination to remain within nominal expenditure estimates in the face of accelerated inflation and to refrain from additional borrowing from the banking system is likely to lend to lower levels of real expenditure than originally planned.

Changes in interest rate policy have been much slower to develop than originally hoped for and expected. It appears that higher nominal interest rates will not be in place for practical purposes until the final months of the year and it remains to be seen how high they will be. The new level of rates will need to be judged against the inflation rate expected over a period of time, rather than against the rather low rate expected to be recorded in the second half of 1981. As it has said on past occasions, the staff is convinced that the arguments favoring positive real interest rates are overwhelming. The staff believes therefore that further steps are desirable in 1982 over and above those being considered for 1981 to ensure that interest rate policy stimulates domestic savings and assists in the appropriate allocation of investment funds.

Table 2 . Yugoslavia: Quantitative Performance Criteria
under Stand-By Arrangement for 1981

	Levels		Cumulative Changes from December 31, 1980 to:			
	December 31, 1980 Estimated	Actual	March 31 1981	June 30 1981	Sept. 30 1981	Dec. 31 1981
Net domestic assets of the banking system (in billions of dinars)						
Ceiling			96.0	179.0	259.0	345.0
Actual	1,538.0	1,554.6	90.2	178.6		
Net credit of the National Bank to the budget of the Federation (in billions of dinars)						
Ceiling			4.6	4.6	4.6	4.6
Actual	77.9	78.7	4.6	4.6		
Net convertible foreign assets of the National Bank 1/ (in millions of U.S. dollars)						
Ceiling			-150.0	-350.0	-550.0	-750.0
Actual	-126.0	-338.0		
Cumulative change in convertible currency debt outstanding 2/ (in billions of U.S. dollars)						
Ceiling			...	1.0	...	1.7
Actual	14.1	14.3	...	0.9		

Source: Data supplied by the Yugoslav authorities.

1/ Excludes medium- and long-term borrowing by the National Bank of Yugoslavia other than purchases from the Fund, and net of the increase in compensatory borrowing by commercial banks.

2/ Increase in debt outstanding in convertible currency with original maturities of more than one year. Includes borrowing by the National Bank of Yugoslavia other than purchases from the Fund. Excludes increases in compensatory borrowing by commercial banks.