

EBS/81/5

CONFIDENTIAL

January 16, 1981

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

Attached for consideration by the Executive Directors is a paper on a request from Yugoslavia for a stand-by arrangement equivalent to SDR 1,662 million. A draft decision appears on page 19.

This subject has been tentatively scheduled for discussion on Friday, January 30, 1981.

Att: (1)

INTERNATIONAL MONETARY FUND

YUGOSLAVIA

Request for Stand-By Arrangement

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

(In consultation with the Legal Department,
the Research Department, and the Treasurer's Department)

Approved by Brian Rose and Subimal Mookerjee

January 15, 1981

I. Introduction

In a letter to the Managing Director dated January 15, 1981 (annexed), the Governor of the National Bank of Yugoslavia and the Federal Secretary for Finance of Yugoslavia express the wish to cancel the present stand-by arrangement and they request a new three-year stand-by arrangement in an amount equivalent to SDR 1,662 million (400 per cent of quota). Of this amount, the equivalent of SDR 304.163 million would be purchased from the Fund's ordinary resources and the equivalent of SDR 1,357.837 million from the supplementary financing facility. If fully drawn, the arrangement would bring the use of the ordinary resources to 100 per cent of quota and use of the supplementary financing facility to 356.8 per cent of quota.

Discussions for a new stand-by arrangement were conducted in Belgrade from October 29 to November 7, 1980 and from December 5 to December 19, 1980 by a staff team comprising Messrs. Tyler (EUR), Manison (EUR), Loser (ETR), and Buyse (EUR), with Mrs. Padmore (EUR) as secretary on the first mission, and Mrs. Bailey (EUR) as secretary on the second mission. Mr. Bery of the World Bank participated in the first mission. The missions met on a number of occasions with Mr. Ksente Bogoev, Governor of the National Bank of Yugoslavia and Mr. Petar Kostic, Federal Secretary for Finance, and held discussions with senior officials.

The stand-by arrangement in an amount equivalent to SDR 339.325 million which Yugoslavia now wishes to cancel was approved by the Executive Board on June 6, 1980 and is effective through December 31, 1981 (EBS/80/114, 5/22/80; and Sup. 1, 6/9/80). On December 3, 1980, the decision was taken by the Executive Board to waive the understandings with respect to certain performance criteria for September 30, 1980 and to modify certain performance criteria for December 31, 1980 (EBS/80/250, 11/19/80; and Sup. 1, 11/26/80). Under the existing stand-by arrangement, Yugoslavia purchased the equivalent of SDR 150 million in June 1980 and SDR 50 million in December 1980. In February, 1980 Yugoslavia purchased the equivalent of SDR 138.5 million under the compensatory financing facility; its outstanding drawings under the facility are equivalent to 66.7 per cent of present quota.

The Fund's holdings of Yugoslav dinars on January 5, 1981 amounted to SDR 1,011.6 million, or 243.5 per cent of quota; excluding holdings relating to purchases under the oil facilities, the compensatory and supplementary financing facilities, the Fund's holdings were SDR 526.8 million, or 126.8 per cent of quota. A summary of Yugoslavia's present position is given in Table 1.

If Yugoslavia purchases the full amount available under the proposed stand-by arrangement, the Fund's holdings of Yugoslav dinars would reach SDR 2,357.6 million, assuming that repurchases are effected on schedule, and the net use of Fund resources in the period to December 31, 1983 would be

Table 1. Yugoslavia: Fund Position

	January 5, 1981		December 31, 1981 projection 1/	
	In millions of SDRs	In per cent of quota	In millions of SDRs	In per cent of quota
Holdings related to:				
Oil facility	83.0	20.0	33.5	8.1
Compensatory financing facility	277.0	66.7	277.0	66.7
Supplementary financing facility	124.8	30.0	398.0	95.8
Regular resources	526.8	126.8	807.7	194.4
Total Fund holdings	1,011.6	243.5	1,516.2	364.9

Source: IMF, Treasurer's Department.

1/ It is assumed that Yugoslavia will enter into the proposed stand-by arrangement in January 1981 and during the 1981 period will purchase a total equivalent to SDR 554 million (SDR 280.9 million from the Fund's ordinary resources and SDR 273.1 million from the supplementary financing facility).

SDR 1,346 million. A waiver of the conditions under Article V, Section 3(b) (iii), of the Fund's Articles of Agreement is required. According to the phasing of the proposed stand-by arrangement, purchases may not exceed SDR 554 million over the first 12 months of the stand-by period (SDR 504.6 million net of repurchases). The proposed schedule would permit purchases of up to SDR 176 million until May 15, 1981, SDR 302 million until August 15, 1981, and SDR 428 million until November 15, 1981. By the end of the second year of the stand-by arrangement, purchases may not exceed SDR 1,108 million.

Yugoslavia is a participant in the Special Drawing Rights Department. On January 5, 1981, holdings amounted to SDR 38.3 million, or 24.7 per cent of the net cumulative allocation of SDR 155.2 million. Yugoslavia has acquired 177,144.008 fine ounces of gold in the gold distribution program, and received US\$32.9 million in direct distribution of profits from gold.

The last Article IV consultation discussions with Yugoslavia were held in Belgrade in February-March 1980 and the Staff Report (SM/80/119, 5/20/80) and Recent Economic Developments (SM/80/120, 5/27/80) were discussed by the Executive Board on June 6, 1980. A summary of Fund relations with Yugoslavia is contained in Attachment I.

Yugoslavia is one of the largest borrowers of World Bank funds. During 1980 the World Bank extended three loans totaling US\$321 million. These loans brought the cumulative amount of loans to Yugoslavia to US\$2.7 billion. Disbursements during the first 10 months of 1980 amounted to US\$237 million.

II. Developments Leading up to the Current Stand-By Arrangement

During the second half of the 1970s, the Yugoslav economy continued to grow at a considerably faster rate than its major trading partners and in 1976-79 the annual growth rate of real gross social product (GSP) averaged 7.2 per cent (Table 2). However, domestic demand was the prime stimulus to production rather than exports and from 1977 onward the deficit in the current account of the balance of payments increased. Domestic demand was fueled by a high growth of personal incomes, which exceeded labor productivity gains and by substantial increases in fixed investments in the enterprise sector, while monetary and credit policies accommodated the excessive domestic expenditures.

Between 1976 and 1979 the volume of imports of goods and services rose at an annual rate of 6.7 per cent, while the volume of exports declined at an annual average rate of 1.0 per cent. The unfavorable underlying trends in the structure of aggregate demand and the balance of payments were compounded by special factors in 1979 including the sharp rise in oil prices, a poor harvest, and the earthquake in Montenegro. As a result, the current account deficit reached US\$3.7 billion in that year, equal to 6.0 per cent of GSP (Table 17). While the net inflow of medium- and long-term capital had been sufficient to cover the deficits in 1977 and 1978, gross official reserves declined by US\$1.1 billion in 1979 to reach US\$1.3 billion, equal to about one month's imports of goods and services from the convertible currency area (Table 18).

Increased inflationary pressures accompanied the deterioration in the balance of payments and retail prices rose by 24 per cent during 1979 (Tables 9 and 10). Although higher import prices contributed to the acceleration, domestic factors were also significant. Excess domestic demand, large rises in unit labor costs, and accommodating monetary policies, all aggravated inflationary pressures.

Substantial increases in nominal personal income payments (Table 11) were largely responsible for the fast growth of personal consumption expenditures and unit labor costs. In 1977-79, the annual rise in net personal income payments per employee in the socialized sector 1/ averaged 20 per cent and that of unit labor costs in industry nearly 14 per cent. A fast growth of fixed capital formation also placed increased pressures on real and financial resources. Real fixed investment increased at an annual average rate of 10 per cent in 1977-79 and the ratio of gross fixed capital formation to GSP was 36 per cent in 1979 (about 31 per cent in relation to GDP). During 1977-79 the incremental capital/output ratio averaged 4.8, which is high compared with countries in a similar stage of development.

Negative real interest rates combined with easy access to bank credit led enterprises increasingly to finance their investments with borrowed funds and to neglect the efficiency of projects with a consequent proliferation of projects, many well below optimum size. Important sectors of agriculture, mining, and industry were neglected because domestic prices made investment unattractive, which led to imports of commodities in which Yugoslavia had previously been self-sufficient or a net exporter.

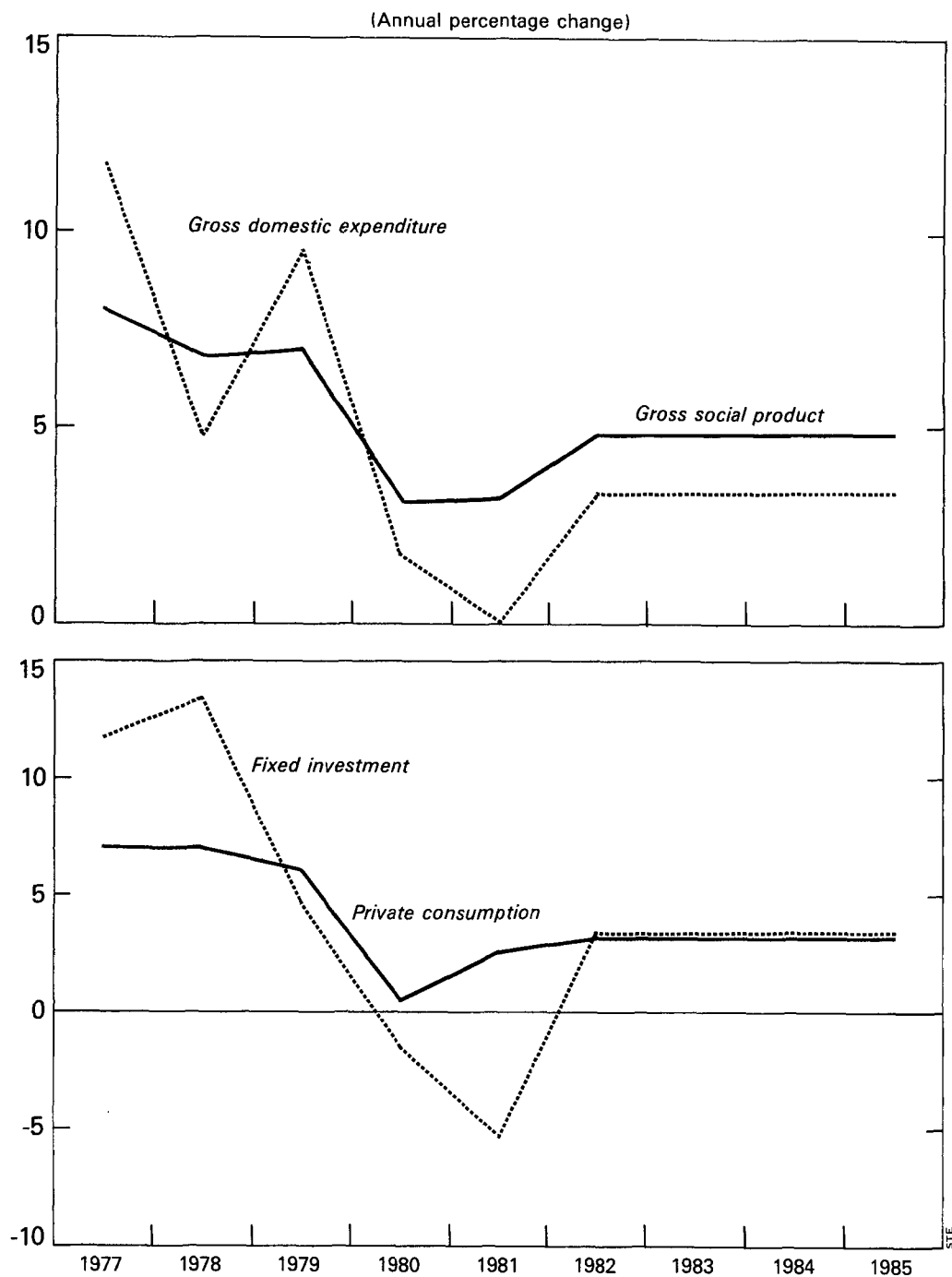
In the second half of the 1970s the authorities gradually acted to redress these imbalances. They specified priority areas for the allocation of funds and used administrative and other measures, including changes in officially controlled prices, to promote development in these sectors. Priority sectors consist basically of those areas of economic activities where scope exists for rapid export growth or rational import substitution and for the exploitation of domestic energy sources. 2/ To date, results have been limited. During the period of the 1976-80 Plan, 65 per cent of total fixed investment was to take place in priority sectors, but in the four years 1976-79 only 58 per cent occurred in those sectors. In part, this was because of the time lag in changing investment directives and in part because enterprises did not follow plan guidelines sufficiently closely.

There were significant changes in the direction and commodity structure of Yugoslav exports in the 1970s (Tables 23-25). Exports to the less developed countries and to the centrally planned economies grew faster than those to the industrialized countries. The share of exports to the developed

1/ This excludes the private sector, which comprises privately-owned farms (by far the largest part) and small businesses.

2/ In industry, priority sectors comprised those concerned with the production of basic metals, basic chemicals, machinery and equipment, as well as nonmetal and construction materials, together with the exploitation of domestic energy sources (primarily coal and hydroelectric energy). Agriculture is a priority sector, with particular emphasis placed on the higher output of food, most notably wheat, corn, milk, and meat for the purposes of improving domestic supplies and promoting export growth. The construction of a better transportation network together with an increase in tourist facilities were given priority also.

CHART 1
YUGOSLAVIA
GROWTH RATES OF NATIONAL ACCOUNTS COMPONENTS



Source: Data supplied by the Yugoslav authorities.

countries declined from 57 per cent in 1970 to 42 per cent in 1979. These trends reflected the decrease in relative importance of primary products in Yugoslav exports, especially to the EC countries, and the emergence of the centrally planned economies as the largest market for Yugoslav manufactures. Among the developing countries, the oil-exporting economies have become more important markets both for primary products and for manufactures. Changes in the regional composition of Yugoslav imports during the 1970s have been similar to those of exports. The proportion of fuels and lubricants in total imports increased from 5 per cent in 1970 to 17 per cent in 1979 while that of capital goods and equipment rose from 18 per cent to 24 per cent.

The authorities began efforts to stabilize the economy in 1979. In May 1979 the Fund approved a stand-by arrangement for Yugoslavia in the first credit tranche (SDR 69.25 million). The program called for a reduction in the real growth rate of GSP to 6 per cent and a current account deficit of no more than US\$1.0 billion. However, economic performance during 1979 fell short of the objectives of the stabilization program due to a combination of exogenous factors mentioned earlier and the continued buoyancy of domestic demand, with real domestic expenditures rising by 9.5 per cent and real GSP by 7.0 per cent in 1979. The resultant excess domestic demand and the external factors led to the increase in current account deficit to US\$3.7 billion.

III. Developments in 1980 and Performance Under the Current Stand-By Arrangement

The very large increase in the current account deficit in 1979 led to strong remedial action. The Annual Plan for 1980 proposed a substantial decrease in the current account deficit, to be obtained by slower growth rates in domestic expenditure and personal income payments. The growth rates of social product and prices were also to be less than in 1979. On June 6, 1980 the Fund approved a stand-by arrangement with Yugoslavia effective through December 31, 1981, which covered the second and third tranches plus supplementary financing in an amount equivalent to SDR 339.325 million. The main objective of the program was a reduction in the current account deficit to no more than US\$2.5 billion in 1980 (around 4 per cent of GSP). The planned rate of growth of real GSP was reduced to 5 per cent, compared with 7.1 per cent in 1979. The program called also for a decrease in the annual rate of inflation to 17 per cent (in terms of the GSP deflator), about 3 percentage points less than in 1979. In addition, it was planned that foreign borrowing, in combination with compensatory borrowing by the commercial banks and the use of Fund resources, would be sufficient to permit an increase in gross official reserves of about US\$0.7 billion.

The stand-by program included as quantified performance criteria quarterly limits on (1) net domestic assets of the banking system, (2) net credit of the National Bank of Yugoslavia to the budget of the Federation, (3) outstanding foreign debt in convertible currency with original maturities of more than one year (excluding purchases from the Fund), and (4) the cumulative decline in net convertible foreign assets of the National Bank less compensatory borrowing in convertible currencies by commercial banks (Table 30).

During 1980 considerable progress was made in strengthening the economy. The deficit in the current account declined to an estimated US\$2.2 billion (about 3.5 per cent of GSP). An important factor in this reduction was a decline in the growth of total domestic expenditure, which is estimated to have risen in real terms by only 1.7 per cent compared with an increase of 9.5 per cent in 1979. The growth of private consumption declined from 6.0 per cent in 1979 to an estimated 0.5 per cent, owing in large part to a decline in real personal incomes. It is estimated that fixed investment fell by 1.5 per cent following an increase of 4.6 per cent in 1979, with the decline concentrated in nonpriority areas. Real GSP increased by 3 per cent, well below the increase of 7 per cent in 1979, but faster than real domestic expenditure, thereby providing the resources needed to reduce the current account deficit.

An important factor reducing the growth of domestic demand was the strict observance of the quantitative guidelines laid down in social compacts agreed between the Federation, the republics, autonomous provinces, socio-political bodies, and enterprises at the beginning of 1980. Income guidelines for individual enterprises were set with reference to the growth of enterprise earnings, and were differentiated by sectors of activity. For enterprises engaged in economic activities, the growth of personal incomes was to be limited to at least 5 percentage points below the growth rate of enterprise income; for noneconomic activities (for example administration, banking, and many services) the equivalent restriction was between 7 percentage points and 9 percentage points below the growth rate of enterprise income. In the event, real personal incomes in the social sector as a whole are estimated to have fallen by 7 per cent in 1980. Social compacts were also effectively implemented in the field of fiscal policy. Although full data are not available it is clear that real public sector expenditures declined, since real wage rates fell substantially and investment in noneconomic activities declined sharply in real terms.

Within the public sector, the weakest area was the budget of the Federation, which accounts for about one fifth of total public sector expenditure. There, revenue fell short of planned levels because of a sharp decline of about 36 per cent in receipts from customs duties and other import charges (Table 15). This is surprising at first sight since import prices rose strongly and the large depreciation of the dinar increased the dinar value of imports. However, the depreciation was accompanied by the termination of the 10 per cent import surcharge and in 1980 there was a marked shift in the pattern of imports away from those subject to high rates of duty to those with low or zero rates. Despite the much larger than expected rate of inflation in 1980, expenditures were only 3 per cent above the original target. However, in December 1980 there was the prospect of a deficit of Din 21 billion compared with the original forecast of Din 6 billion. The authorities were examining various possibilities, including the postponement of some expenditures in the last weeks of 1980, to avoid the above large increase in the deficit. Whether or not this proves possible, any increase in the deficit will not be financed by borrowing from the National Bank but by borrowing from commercial banks within their overall credit ceilings.

Despite the easing of domestic demand pressures, the rate of increase of prices accelerated in 1980. Compared with a rise of 24 per cent during 1979, the 12-monthly rate of increase in the retail price index had reached 37 per cent by November 1980. This acceleration is attributable largely to the substantial increase of import prices in dinars resulting from higher import prices in foreign currencies and the depreciation of the dinar, and to a number of administered price increases, including adjustments to stimulate agricultural and domestic energy production and to conserve on the use of oil products. The authorities have estimated that about half of the inflation in 1980 resulted from higher dinar prices of imported goods.

Monetary developments in 1980 were described in detail in EBS/80/250. Briefly, the actual increase in money supply was 24 per cent compared with a planned increase of 22 per cent (Table 12). This is a modest excess in view of the large acceleration in the rate of inflation. Domestic credit expansion (28 per cent) was higher than planned (22 per cent) principally because foreign borrowing by the enterprise sector was replaced by foreign borrowing by the National Bank, which, in turn increased its domestic lending. Also the book value in dinars of domestic credits denominated in foreign exchange ^{1/} rose because of the depreciation of the dinar. Borrowing by the Federal budget from the National Bank during 1980 did not exceed the planned ceiling although the ceiling was reached earlier than originally planned.

As mentioned above, the target for reducing the current account deficit to less than US\$2.5 billion in 1980 was achieved, with the latest estimates indicating a deficit of around US\$2.2 billion (Table 17). This improvement was due largely to a reduction in the trade deficit to US\$6.0 billion in 1980 from US\$7.2 billion in 1979. The target under the program was a deficit of US\$7.0 billion. In 1980 the dollar value and volume of exports rose by 31 per cent and 10-11 per cent, respectively. The program called for the volume of exports to rise by 8 per cent. In contrast, the value of imports increased by only 6 per cent over the same period, with their volume declining by about 11 per cent compared with the original target of a 9 per cent reduction in volume. A large fall was recorded in imports of capital equipment, while imports of raw materials and intermediate goods rose about twice as fast as total imports. Developments in the services account varied. Although receipts from tourism and workers' remittances were higher than expected, there were substantial withdrawals from foreign exchange deposits by Yugoslavs working abroad in the first part of the year and a higher than forecast rise in interest payments. Net receipts from invisibles are estimated to have been US\$3.8 billion, compared with an original target of US\$4.5 billion.

Exchange rate policy was an important factor contributing to the improved current account performance. In the first half of 1980 there were a series of small depreciations of the effective exchange rate. By mid-year, however, the authorities decided that a greater adjustment was needed and they depreciated the effective exchange rate by 22 per cent. At the same time, the 10 per

^{1/} These credits are made in dinars by the commercial banks to enterprises on whose behalf they have borrowed abroad.

cent import surcharge was terminated. Subsequently, the effective exchange rate did not vary greatly and at the end of the year its depreciation compared with a year earlier was about 35 per cent.

While the outcome for the current account has been better than planned, developments in the external capital account were on balance less favorable. As described in detail in EBS/80/250, because medium- and long-term foreign borrowing was less than expected (US\$1.4 billion net, compared with a planned level of US\$2.5 billion, net), short-term foreign borrowing in convertible currencies was greater than planned and the increase in gross official reserves fell short of its target. At the end of 1980 the latter are estimated to have been US\$1.5 billion, equal to only one month of imports of goods and services from the convertible area.

Medium and long-term convertible foreign debt outstanding on December 31, 1980 is estimated to have amounted to US\$14.1 billion, which compares with the originally programmed ceiling of US\$14.7 billion. The ratio of debt service for medium- and long-term convertible debt to receipts in convertible currency from exports of goods and services rose from 15.6 per cent in 1979 to about 19.0 per cent in 1980 (Table 27). If debt service receipts on medium- and long-term loans that Yugoslavia has extended in convertible currencies (Table 29) were deducted from its own debt service payments, the above ratios would be about 2 percentage points less.

As a result of the developments described above, three out of the four performance criteria set for September 30, 1980 were not observed, namely those on net domestic assets of the banking system, net credit of the National Bank to the budget of the Federation, and the cumulative decline in net convertible foreign assets of the National Bank. The Executive Board on December 3, 1980 granted a waiver of these performance criteria (EBS/80/250, and Sup. 1). At the same time, the Executive Board agreed to the Yugoslav request to modify the performance criteria for the limit on net domestic assets of the banking system and of the cumulative decline in net convertible foreign assets of the National Bank for December 30, 1980.

IV. The Economic and Financial Program for 1981-83

1. General policies

During 1981-83, the authorities intend to continue with relatively restrictive domestic demand management policies, but they also propose to restructure the supply side of the economy to provide the basis for a sustained improvement in the balance of payments. Priority sectors ^{1/} have been identified that will increase export supplies and reduce reliance on imports of both goods and services. An important target of the 1981-85 Plan is a reduction of current account deficit to a cumulative value of about US\$6 billion over the period 1981-85 based, inter alia, on an average annual increase

^{1/} See footnote 2 on page 4.

CHART 2
YUGOSLAVIA
TRADE, SERVICES AND CURRENT ACCOUNT BALANCES
OF THE BALANCE OF PAYMENTS

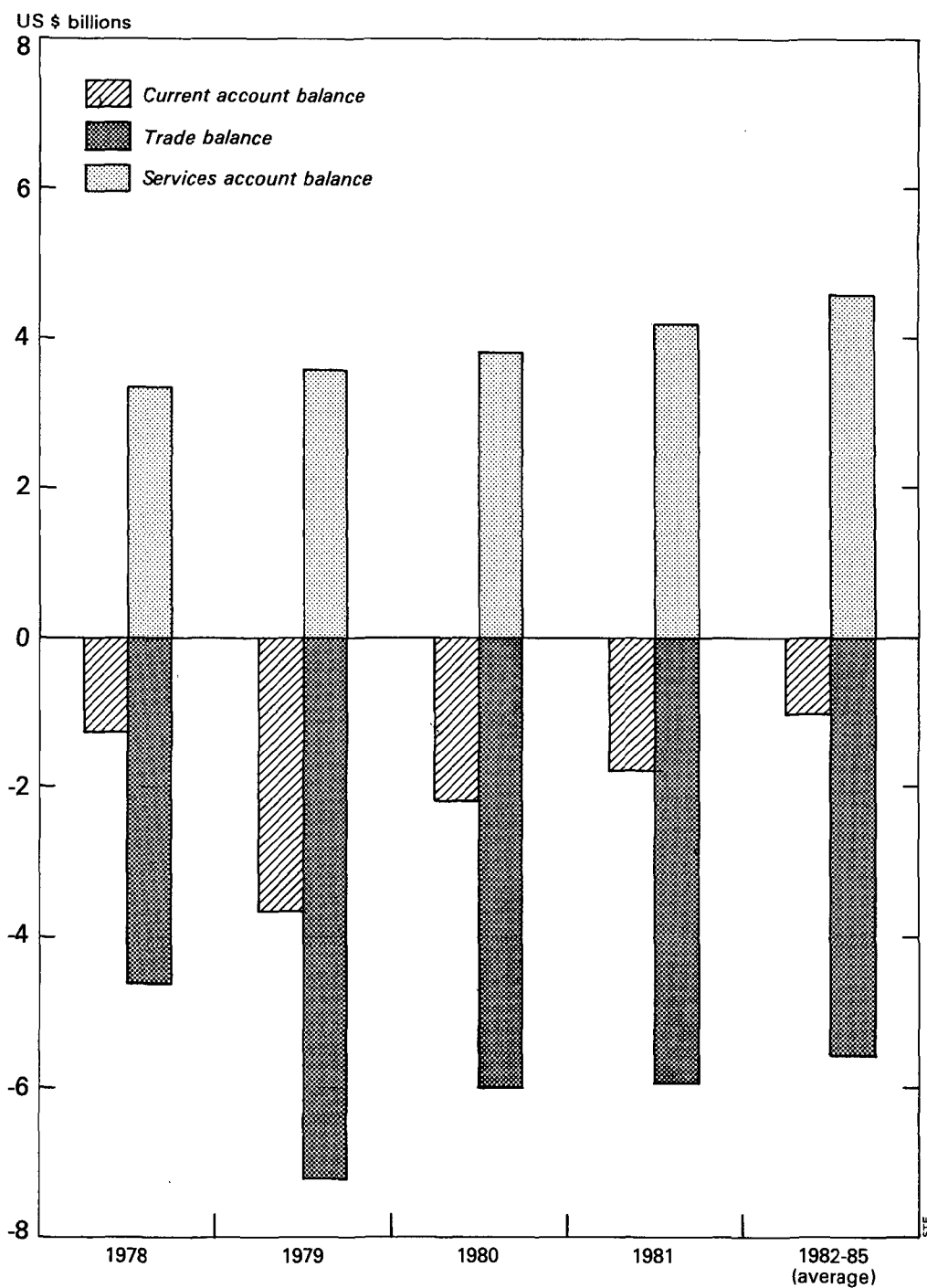
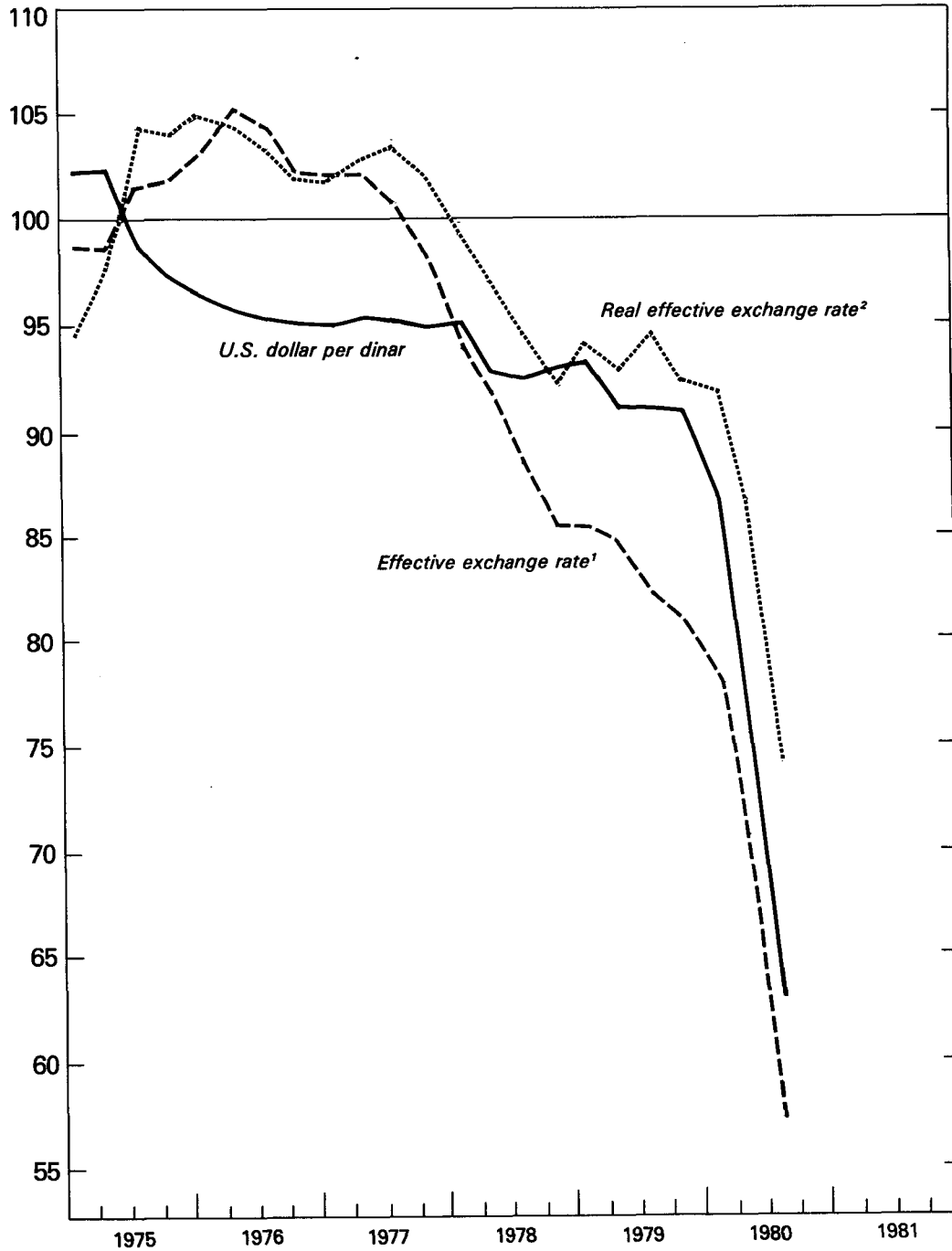


CHART 3
YUGOSLAVIA
EXCHANGE RATE INDICES
(1975=100)



Sources: IMF, *International Financial Statistics*; and staff estimates.

¹Index of trade weighted foreign exchange value of the dinar. Weights are based on import and export shares in trade with major convertible currency countries.

²Effective exchange rate adjusted for changes in Yugoslav wholesale prices relative to a weighted average of wholesale prices in major convertible currency trading partners.

in foreign trade prices of 10 per cent. ^{1/} It is believed by the authorities that this is compatible with satisfactory domestic growth. The target for the cumulative current account deficit is ambitious. Indeed, it could be argued that a somewhat larger figure would be quite satisfactory given Yugoslavia's present debt position and the need to develop the economy through efficient investment. In any event, substantial net financing from abroad will be necessary both to cover the current account deficit and to increase the relatively low level of gross international reserves. A major proportion will come from market sources but the authorities consider that the availability of Fund resources will greatly assist their implementation of the program.

The policies that will be pursued over the program period are formulated in the Social Plan for 1981-85. This is in its final stages of completion, but the main targets and policy lines have been established. They are the outcome of a consensus among the different socio-political and economic bodies of the country, including the enterprise sectors and the various levels of government. The formulation of and arrangements for implementation of the policies have been made through a series of social compacts, whereby signatories have the obligation to act individually so as to achieve the joint aims that have been accepted. Implementation is carried out through the Annual Plans, which are flexible and reflect the particular circumstances of the economy in each calendar year. To that extent, the quantitative targets embodied in the 1981-85 Plan are subject to modification in individual years. However, the aim of attaining a viable balance of payments will remain paramount. The finer details of the 1981-85 Plan, expected to be completed by March 1981, are to be described in the course of consultations with the Fund later in 1981. During 1981, the World Bank is expected to make a thorough examination of the investment program.

The main macroeconomic targets for the plan period are shown in Tables 3 and 4. Subject to the achievement of a satisfactory external outcome, real GSP is projected to increase at an annual average rate of between 4-4.5 per cent. Real domestic expenditure is projected to increase by an average rate of 2.6 per cent per annum, about two percentage points less than GSP. Total consumption (including private, public and collective consumption) ^{2/} is to increase at an average annual rate of only 1.6 per cent. These projected growth rates are considerably less than actual growth in the years immediately prior to 1980. The higher growth rate of GSP relative to expenditure will result in a gradual reduction in the deficit in the current account of the balance of payments from the equivalent of 6 per cent of GSP in 1979 and 3.5 per cent in 1980 to about 1 per cent toward the end of the program period.

^{1/} Although the proposed program covers the period 1981-83, the authorities have established their targets and policies for the five-year plan period 1981-85. The following discussion is set in terms of this framework; in general, annual targets have not been defined at present, except for 1981.

^{2/} Collective consumption includes expenditures by enterprises and public bodies on various welfare benefits, for example, rents, annual vacations, education, recreational facilities, which are to be severely restricted. Hence, the growth of total consumption is less than that of either private or public consumption in Table 3.

2. Supply-oriented policies

a. The investment strategy

The 1981-85 Plan envisages the reorientation of domestic investment as the major means of restructuring the economy. In the past Yugoslavia has devoted a significant proportion of its resources to fixed investment and during the period 1976-79 the ratio of gross fixed capital formation to GSP was 35 per cent. (The ratio fell to 34 per cent in 1980 when real investment declined in response to the restrictive financial policies designed to cut back low-priority investments.) The objectives for the forthcoming five-year plan are to channel resources to the priority sectors while reducing the ratio of gross fixed investment to GSP to about 30 per cent. It is expected that a decline in the incremental capital output ratio can be attained as investment is shifted away from low yielding nonpriority sectors (Table 5). Emphasis has been placed on those projects that will increase export capacity and encourage rational import substitution.

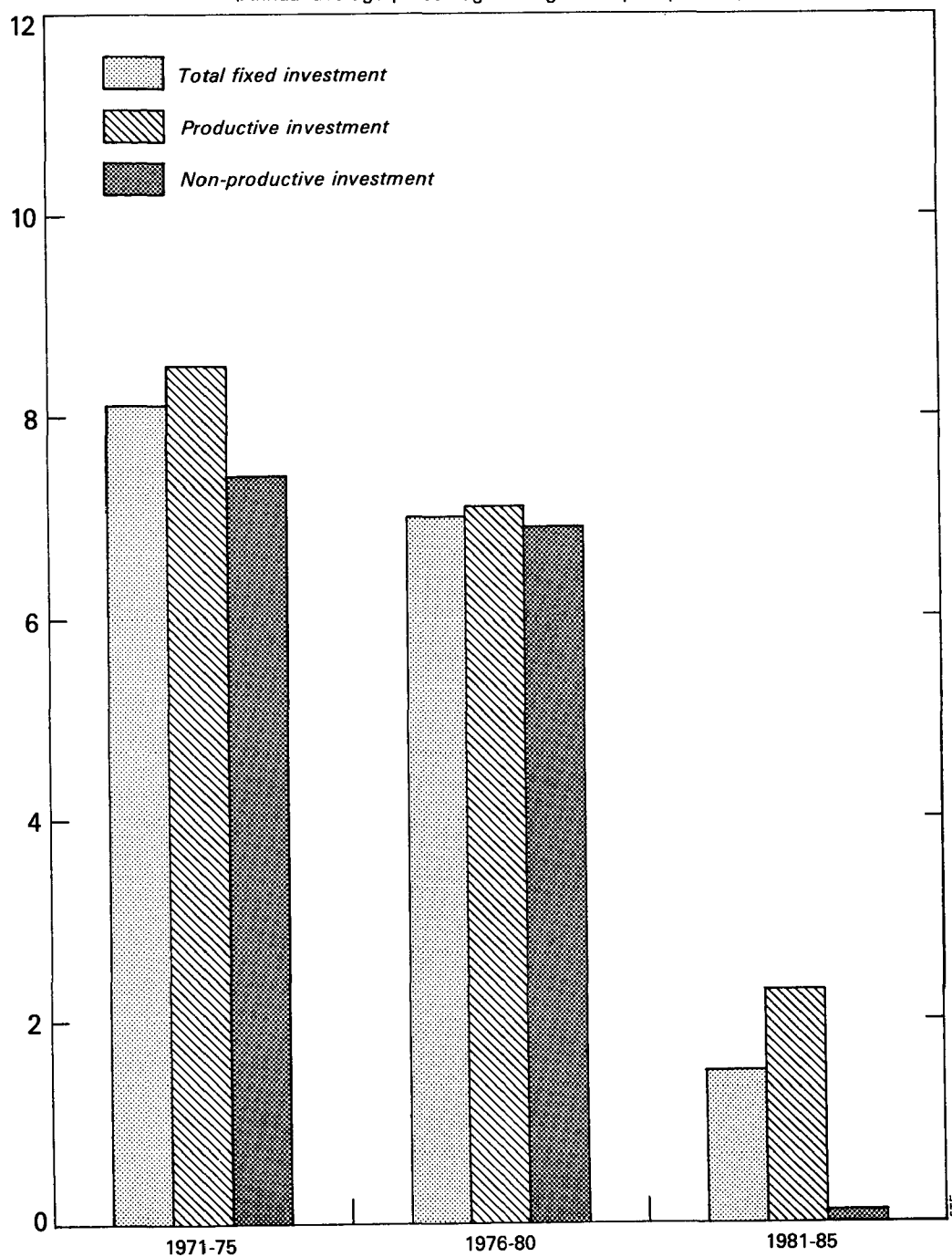
The greater emphasis on export-oriented and efficient import substituting activities is to result in a sharp increase in the ratio of exports to imports. This amounted to only 48 per cent in 1979 and 60 per cent in 1980, but is expected to increase to about 70 per cent by 1985. The investment program is also expected to increase the ratio of production to consumption for a large number of important basic commodities, as illustrated in Table 6. Although in some cases, notably production of petroleum, the ratio is to decline, for a considerably larger number of commodities the ratio is projected to increase from 1980 to 1985, after the declines experienced during 1976-80. In many cases exportable surpluses will emerge or increase.

b. Policies for investment

The achievement of investment goals will depend on several direct and indirect policy measures embodied in the social compacts for 1981-85: (i) the possibility of greater profits for enterprises in the priority sectors through higher prices, so that more investment can be financed internally; (ii) a reduction in import taxes, and an increase in tax exemptions both at the Federal and republican level; (iii) preferential domestic financing conditions; and (iv) allocation of 80 per cent of foreign borrowing to the priority sectors. These policies will be supplemented by the interest rate policies described below. Investment in nonpriority and noneconomic sectors is to be discouraged by the continuation of cautious fiscal and monetary policies and access to credit at favorable terms will be severely restricted. Newly issued regulations preclude sociopolitical communities from obtaining funds for the construction of administrative buildings, while investment expenditure is to be reduced in the field of culture, art, physical education, etc. Certain additional restraints have been introduced on investments for education, social security and other activities of the sociopolitical communities, so that investment in the nonproductive sector is planned to increase by less than 1 per cent over the entire period 1980-85. Investment in agriculture is to be stimulated by realistic relative prices, to

CHART 4
YUGOSLAVIA
GROWTH RATES OF FIXED INVESTMENT
AND COMPONENTS

(Annual average percentage change over plan periods)



Source: Data supplied by the Yugoslav authorities.

encourage increased production. Guaranteed minimum prices are to be established annually for wheat, corn, rice, sugar beets, sugar, oil seeds, tobacco, and livestock (cattle, sheep, and pigs).

The efficiency of investment, which in the past had been hindered by the small capacity, proliferation, and duplication of existing plants, is to be improved. The preparation and appraisal of investment is to be carefully scrutinized, with increasing involvement of banks and special independent appraisal entities, and through the application of cost-benefit analysis, along the lines of the appraisal methodology of the IBRD. Particular emphasis will be given to joint investment between enterprises in different republics in order to reduce duplication.

c. Interest rate policies

To supplement the investment program, the authorities intend to restructure interest rates over the 1981-85 plan period. Recently, low nominal interest rates combined with a high rate of inflation have produced negative real interest rates, which encouraged high levels of expenditure and an inefficient allocation of resources within and between enterprises. The new proposals envisage an increase in deposit rates, differentiated according to maturity. Lending rates will continue to be established freely by the contracting parties, i.e., banks and enterprises, but the increase in the deposit rate is expected to result in higher interest rates on lending. The new system will probably include a selective system of preferential rates to the priority sectors.

d. Energy policies

Yugoslavia depended on petroleum for about 40 per cent of total energy requirements in 1980 (Table 7) and only one quarter of oil consumption is produced domestically. Measures to increase domestic supply and reduce consumption of energy have been successful. Net imports of oil and petroleum products declined from 12.5 million tons in 1979 to an estimated 11.5 million tons in 1980 (Table 8). Gasoline consumption and fuel oil usage have declined sharply in response to higher prices and administrative measures. Major efforts have been undertaken to improve the efficiency of energy use and more active petroleum conservation policies are being pursued. Domestic petroleum prices are adjusted in line with the import price of oil and increased coal production is being obtained from new mines, the reopening of closed mines and the expansion and modernization of existing ones. Hydroelectricity and geothermal sources are being developed further, while greater emphasis will be placed on railways for domestic transportation. It is estimated that by 1985, the share of petroleum as a source of total energy will be about 35 per cent, compared with 44 per cent in 1979 and 40 per cent in 1980. While overall energy consumption is to increase at an annual average rate of 8 per cent (compared with an annual rate of 15 per cent in 1975-80), energy based on coal will increase at an average rate of 20 per cent in 1981-85.

e. External policies

The central feature of the program is the forecast shift of resources to the external sector. By 1985 the authorities expect to attain a current account deficit of about US\$700-800 million. As indicated above, new capacities in export-oriented and import-substituting activities will be a major element in achieving the above target. The planned rate of exports of goods is at least 8 per cent per annum in real terms. Exports of services, excluding workers' remittances, are projected to increase at a rate of about 9 per cent in real terms. The authorities will emphasize exports of semi-finished and finished goods, foodstuffs, and services, in particular tourism and engineering and investment projects abroad. Imports of goods and services are projected to increase at a slower rate than GSP, by about 1.1 per cent per annum according to the Plan. Imports of intermediate goods are expected to continue to grow in line with industrial production, while imports of consumer goods may remain stable or decline. The volume of imports of capital goods is expected to stagnate or decline in response to the slow growth of investment and the greater use of domestic investment goods.

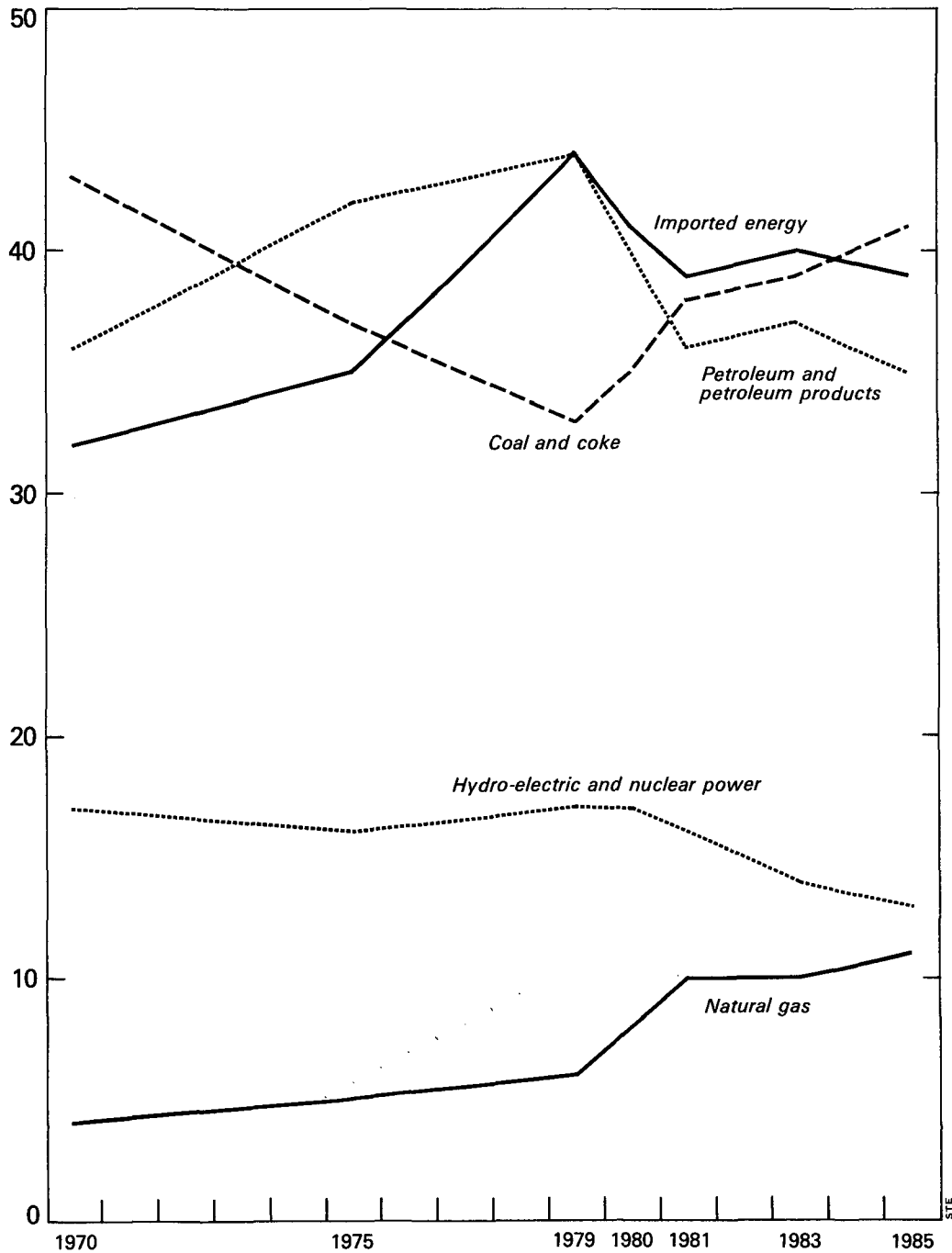
The import forecast is probably the most questionable part of the program. For the 1981-85 target to be achieved, the growth of import volume will need to be significantly less than that of GSP. Estimates of the income elasticity of demand for imports of goods suggest a figure of 0.85 during the 1970s. Even with relatively optimistic assumptions about net invisible receipts, it will be necessary to reduce the above elasticity to an average about 0.75 during 1981-85. While this is not impossible, it will require a firm implementation of the investment program. Given all the uncertainties, there is an obvious possibility that the cumulative deficit could exceed the planned US\$6 billion. However, if the deficit by 1985 exceeded the planned US\$700-800 million by only a moderate amount, the balance of payments and the foreign debt position should remain manageable, given that a deficit of US\$800 million would be equal to only about 1 per cent of GSP.

During the program period the authorities will continue to pursue an exchange rate policy aimed at maintaining Yugoslavia's external competitiveness. External borrowings will be geared toward financing the current account deficit so that the level of gross convertible international reserves, including those of the deposit money banks can be maintained at the equivalent of two months' imports of goods and services from the convertible currency area. Attention will be paid to the maturity structure to avoid a large buildup of short-term foreign debt or the bunching of repayments of longer-term debt.

Concurrently with the depreciation of June 1980, the import surcharge of 10 per cent previously in effect was eliminated, and the power of the Federal Assembly to impose such a surcharge is to be revoked shortly. The level of current charges on imports comprise the regular custom duties, which average about 9 per cent, a customs verification tax of 1 per cent, and a tax equalization charge of 6 per cent. The latter is intended to compensate for the burden of direct taxation borne by domestic producers. The authorities consider that protection of domestic production should be low and based on

CHART 5
YUGOSLAVIA
DOMESTIC ENERGY CONSUMPTION BY SOURCE

(As a percentage of total domestic energy consumption)



Source: Data supplied by the Yugoslav authorities.

a relatively undifferentiated tariff, accompanied by appropriate exchange rate policies. The general policy will be to continue to reduce the number of commodities under restrictive import regimes.

Although the exchange system is moderately complex in the formal sense, chiefly because import quotas result in exchange restrictions, it is administered liberally. Moreover, in recent years there has been a significant reduction in exchange restrictions. During the period of the proposed stand-by arrangement the authorities do not intend to introduce any multiple currency practices, or introduce new or intensify existing restrictions on payments and transfers for current international transactions or enter into bilateral payments arrangements with Fund members. They do not intend to introduce new or intensify restrictions on imports for balance of payments reasons. These intentions are included as performance criteria in the stand-by arrangement.

2. Demand management in 1981-85

The basic aim of incomes policy in 1981-85 will be to permit a modest increase in personal incomes, in line with the expected increase in productivity. However, collective consumption by enterprises is expected to grow at a slower rate than GSP. Guidelines on personal incomes have been established in the framework of social compacts at the federal and republican levels, to achieve the intended increases. Increases in personal incomes in priority sectors will be allowed to grow at a faster rate than in other sectors to encourage the required shift of labor.

Fiscal policies are designed to decrease the relative size of public sector expenditure and it has been stipulated that it must increase at a slower rate than nominal GSP. A basic aim will be to reduce the share of collective consumption in GSP. Although certain items are not flexible (defense, disability pensions, etc.), the authorities intend to continue with cautious fiscal policies along the lines of the 1980 stabilization program. In particular, the ratio of defense expenditures to national income is not to exceed 5.8 per cent, while special transfers to less developed regions are projected to decline as a proportion of GSP. Moreover, the Federal Government expects to eliminate recourse to National Bank financing in 1982-83.

Although quantitative monetary targets have not been set beyond 1981, the rate of growth in the money supply is to be less than that of nominal GSP and credit policies will be adopted to this end. The authorities intend to direct more financial resources to the priority sectors. Monetary policy is to be reinforced by the interest rate policies described earlier.

3. Economic policies and financial program in 1981

As shown in Table 2, the broad growth pattern of production and expenditure, with total real domestic expenditure increasing by less than real GSP, is to be unchanged in 1981. A somewhat faster growth of personal consumption (2.5 per cent) is balanced by a projected decline in gross fixed investment

(-5.3 per cent). The volume of exports of goods and services is expected to increase by 7 per cent and that of imports of goods and services to decline by 3 per cent. Tentatively, the increase in the GSP deflator has been put at 20 per cent, but in practice this is likely to be exceeded. An increase in prices from December 1980 to December 1981 of 20-25 per cent is more realistic, implying an increase in the GSP deflator in 1981 of about 25-30 per cent.

Externally, the authorities aim at reducing the current account deficit of the balance of payments from US\$2.2 billion in 1980 to US\$1.8 billion (2.5 per cent of GSP) in 1981 (Table 17). The trade deficit is expected to remain virtually unchanged at US\$6 billion, with the volume of merchandise exports rising by 7 per cent and the volume of imports declining by 3 per cent. The improvement in real trade flows is expected to be offset by a forecast deterioration of 6 per cent in the terms of trade. A moderate increase of US\$0.4 billion is expected in the surplus on services account largely as a result of higher net receipts from tourism and workers' and emigrants' remittances.

a. Monetary policies

The authorities intend to limit the increase in the money supply to 22 per cent over the 12 months to December 1981 (Table 12). With nominal GSP projected to rise by about 26 per cent in 1981, this implies a rise in the income velocity of circulation of money but by less than in the preceding three years. After taking account of projected changes in net foreign assets and quasi-money, domestic credit is programmed to rise by 22 per cent in 1981 compared with an estimated increase of 28 per cent in 1980. The authorities have established quarterly ceilings on bank credit, which are set out in Table 31, and are incorporated as performance criteria for the first year of the proposed stand-by arrangement. These ceilings take account of the seasonal pattern of the demand for credit and the expected deceleration of domestic price increases. The total credit ceilings are translated into ceilings for individual banks, which have an obligation to remain within their lending limits. While these ceilings are the main instrument of credit control by the National Bank of Yugoslavia, the latter can also adjust reserve requirements or its own lending to the commercial banks to influence credit expansion. The financial program is predicated on a substantial reduction in the rate of inflation during 1981, which may be difficult to achieve. Should price increases significantly exceed 20 per cent during 1981, it is possible that monetary conditions will become very tight. However, the authorities are convinced that it is desirable to commence with a cautious monetary policy and face the need for possible adjustment if it arises. The authorities have also established a subceiling of Din 4.6 billion on net credit from the National Bank of Yugoslavia to the budget of the Federation, all of which is expected to be used in the seasonally weak first quarter of the year. This sublimit, which is half the amount used in 1980, is a performance criterion under the stand-by arrangement.

b. Fiscal policies

The growth of public expenditures will be limited to 4-5 percentage points below that of nominal GSP. The volume of public sector investments will not be increased in 1981, with no new investment projects being

commenced, except if totally self-financed by the public body concerned. The public sector as a whole is expected to be in approximate financial balance in 1981.

Data is now available only for the budget of the Federation, which in recent years has been virtually the sole source of the public sector deficit (Table 15). Preliminary estimates indicate that total expenditures of the Federation are to increase by 26 per cent in 1981. Outlays for defense, which are expected to comprise about 62 per cent of the total are projected to rise by 34 per cent, while nondefense expenditures are targeted to rise by less than 16 per cent and to decline substantially in real terms. Total revenues are budgeted to rise by 52 per cent. Custom revenues are expected to rise by 80 per cent largely as a result of the accrual of a higher proportion of these revenues to the Federation; the percentage is to rise from 42 per cent in 1980 to 68 per cent in 1981 at the expense of institutions in the republics concerned with foreign economic relations. Receipts from general turnover and sales taxes are budgeted to increase by 56 per cent in 1981 owing primarily to an expected rise in sales and turnover tax rates. The deficit is expected to amount to Din 1.1 billion compared with Din 21.1 billion in 1980, which was equivalent to about 1.3 per cent of GSP. As described above, borrowing from the National Bank will be reduced from Din 9.2 billion in 1980 to Din 4.6 billion, of which Din 3.0 billion will be used to amortize bonds held by the commercial banks.

c. Incomes and prices policies

Real personal incomes in the socialized sector are to rise on average by 1.3-1.5 per cent in 1981, in line with the projected increase in labor productivity. Enterprises will be expected to continue the differentiated incomes policies pursued in 1980, i.e., workers in noneconomic sectors (e.g., communal services, banking, and finance) will receive below average increases, while workers in arduous occupations will receive relatively higher increases. Measures will be taken to improve the standard of living of the lower income households through higher allowances for children and educational expenses.

The authorities expect that the stability of real domestic demand and the low increase in real personal incomes will have a dampening effect on domestic prices in 1981. In addition, the need for administered price increases should be substantially less. Furthermore, neither the depreciation of the effective exchange rate of the dinar nor the increase in dollar prices of Yugoslav imports is expected to be as great in 1981 as in 1980.

4. Exchange rate, foreign borrowing, and reserve policies

In 1981 the authorities will continue to aim at maintaining external competitiveness through any necessary adjustments in the exchange rate of the Yugoslav dinar in accordance with relative price and cost movements and the evolution of the current account. In spite of the forecast decline in the current account deficit in 1981, gross medium- and long-term loan receipts are projected to be at approximately the same level as in 1980, of

which at least US\$800 million in financial credits is expected to be obtained by the National Bank of Yugoslavia. Yugoslavia expects further increases in its net liabilities under bilateral payment agreements (with non-Fund members) and compensatory foreign borrowing by the commercial banks. The above receipts, together with the proposed use of Fund resources, would permit the repayment of some short-term credit and a modest increase in the level of gross official reserves, which the authorities believe is essential. The resultant level of official reserves of US\$1.8 billion would be equivalent to the very low level of about one month's supply of imports of goods and services from the convertible currency area. Consistent with these borrowing plans and the expected pattern of developments in the current account of the balance of payments, the authorities have established quarterly targets for the net convertible foreign assets of the National Bank (excluding the medium- and long-term liabilities mentioned below) less compensatory borrowing by the commercial banks and semi-annual targets for the net increase in medium- and long-term borrowing in convertible currencies, including that by the National Bank but excluding compensatory borrowing by the commercial banks. These limits, which are shown in Table 31, are incorporated in the proposed stand-by arrangement as performance criteria.

V. Staff Appraisal

The economic performance of Yugoslavia deteriorated sharply in the period 1977-79, culminating in the emergence of a current account deficit in the balance of payments in 1979 of US\$3.7 billion, equal to 6 per cent of GSP. A variety of factors contributed to the deterioration. Some were external and outside the authorities' control. Others, including excess domestic demand and an unsatisfactory pattern of production and investment, resulted in part from inadequate policies. The solutions to the economic imbalances required strong and pervasive economic actions. They also required a mixture of short-term demand management policies and longer-term policies to bring about structural changes, particularly those affecting the balance of payments directly or indirectly. Although a stabilization program based largely on demand management policies was begun in 1979, little success was evident in that year. Also, although structurally oriented policies were instituted to some extent during the 1976-80 Plan period, their effects were slow to eventuate. At the end of 1979 the authorities recognized that a much greater effort was needed both in the 1980 Annual Plan and in the period of the 1981-85 Plan.

The 1980 stabilization program had very considerable success. Policies were firmly implemented in all areas and in the main achieved their intended results, in part because there was widespread cooperation from all levels of government and enterprises. In particular, there was a major improvement in the balance of payments, with the current account deficit declining by about US\$1.5 billion to US\$2.2 billion. The fact that domestic demand grew more slowly than did total output, was aided in part by commendable restraint in nominal wage increases, which led to a substantial decline in real wage rates and a strengthening of enterprise finances. Furthermore, the first signs of structural improvement began to appear.

The least satisfactory area was prices. However, it is important to note that the acceleration of inflation reflected to a considerable extent deliberate and desirable policy actions such as the depreciation of the dinar and structural price increases, combined with the unexpected rapid increase in world prices of oil and other raw materials. There are grounds for hoping that not all such factors will be so adverse in 1981.

Basic demand management policies are to continue without major change in 1981. This is necessary and welcome. The planned growth in output is moderate and total domestic expenditure is to remain constant. Real wage rates will be permitted to rise but only modestly and in line with productivity gains and indirect compensation by way of collective consumption is to decline in real terms. Price increases should be noticeably less than in 1980. The financial program for 1981 is cautious. It assumes an increase in nominal GSP of 26 per per cent and provides for an increase in money supply of 22 per cent. The velocity of circulation rose quite sharply in 1980 and there is no evidence that financial aggregates are now excessive. Moreover, the price assumption is optimistic. If price increases between the beginning and end of 1981 significantly exceed 20 per cent, there is a possibility that monetary policy could become excessively tight. However, the staff agrees with the Yugoslav authorities that it is both reasonable and desirable to begin 1981 with a cautious approach to monetary planning. Public sector policies retain restrictions on investment in the noneconomic sector and real expenditure should not rise, despite the fact that real wage payments will not decline as was the case in 1980. The deficit in the budget of the Federation, which in contrast to the original estimates grew to over one per cent of GSP in 1980, is expected to be minimal and borrowing from the National Bank is to be halved compared with 1980, in nominal terms.

The balance of payments target for 1981 calls for a further reduction in the current account deficit to about 2.5 per cent of GSP. The export projection implies a further increase in Yugoslavia's market shares but this should be achievable. The projected reduction in the volume of imports for the second successive year (albeit at a much lower rate) will perhaps be the most difficult target to reach. However, the authorities believe that the tight restraint on domestic demand and the structural changes that are occurring in both demand and output make the target realistic. The staff believes that there are two conditions that are important in the external sector. One is that relative movements in costs and prices in Yugoslavia and foreign markets must not lead to a deterioration of the present competitiveness of the Yugoslav economy. It is, therefore, encouraging that the authorities have stated their determination to take whatever steps are necessary in this area. The second is that, as in 1980, developments in the current account must be followed carefully and adjustments made to domestic policies if the priority aim of reducing the current account deficit appears in jeopardy.

The medium-term structural elements of the stabilization program are particularly important, since the continuance of current stringency in demand management would lead in the medium term to unacceptable levels of unemployment. During 1981-85, investment expenditure is to grow by about 1.5 percentage points less than total output. The decrease in the incremental capital output ratio is expected to come through a reduction in the

proportion of investment going to the noneconomic sector and more efficient investment in the economic sector. Finally, investment is to be directed to priority areas that will assist the balance of payments. The investment strategy is expected to be reflected in the pattern of production, with a greater degree of self-sufficiency in the agricultural, energy, and raw materials sectors. The World Bank is proposing to send a mission to Yugoslavia in the middle of 1981 to evaluate the investment program in depth; the present thinking of the Bank staff is that the broad investment strategy that is to be followed is appropriate for the structural changes that are sought and should lessen pressures on the balance of payments.

The authorities believe that their program will permit an acceleration of the growth of GSP during the period 1982-85 to a level of about 5 per cent during the final years. For the balance of payments the target for a cumulative deficit of US\$6 billion of the five years is ambitious, since it implies a slow rate of growth of imports. A reduction in the income elasticity of demand for imports can reasonably be hoped for, but what can be achieved by this means may not be sufficient, which would imply the possible need for higher export growth, or lower growth of GSP or a larger cumulative deficit. The authorities have stated their determination to achieve a sustainable external position, which the staff fully supports. However, if the cumulative current account deficit should somewhat exceed US\$6 billion, this need not mean an unsustainable balance of payments as long as the export sector develops along planned lines.

The cumulative deficit on current account projected during 1981-85 will require considerable recourse to foreign capital markets. However, the current level of foreign debt is manageable and should remain so, provided the balance of payments develops satisfactorily. Moreover, Yugoslavia is receiving a steady and useful flow of foreign exchange through the servicing of foreign loans which it has extended.

The staff welcomes the liberalization of the trade and payments system in recent years, and in particular welcomes the elimination of the 10 per cent import surcharge. The authorities have stated their determination to continue with the integration of Yugoslavia into world markets and not to rely on exchange or trade restrictions.

Although not quantified, the broad outlines for financial policies for 1982-85 are appropriate. If followed through in the monetary and fiscal fields, they should prevent the emergence of excess demand and continue the reduction in the relative importance of the public sector. The proposed changes in interest rates are difficult to comment upon at any length, since their final form is not yet decided. Although positive real interest rates would support the investment program, the high increase in nominal interest rates that would be needed now to make real interest rates positive is probably not practicable. However, higher nominal interest rates and a reduced rate of inflation will work in the right direction. The authorities have stated that they intend to continue to examine the interest rate system in the light of experience.

In the opinion of the staff, the program described in the annexed letter can be expected to lead to a further improvement in the balance of payments while laying the foundation for sustained growth in output. Demand management policies are cautious and the medium-term structural policies should materially assist in strengthening the external sector as well as the domestic economy. The staff feels that the substantial efforts being undertaken by the Yugoslav authorities deserve the support of the Fund. Accordingly, the following draft decision is proposed for adoption by the Executive Board:

1. The Government of Yugoslavia has notified the Fund that it wishes to cancel the stand-by arrangement approved by the Fund in June 1980 (EBS/80/114, Supplement 1, 6/9/80) and has requested a new stand-by arrangement with supplementary financing for the period from January , 1981 to December 31, 1983, for an amount equivalent to SDR 1,662 million.

2. The Fund notes that the stand-by arrangement in EBS/80/114 (5/22/80) is canceled and approves the stand-by arrangement attached to EBS/81/5 (1/16/81),

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Table 2. Yugoslavia: National Accounts, 1/ 1977-81

(Percentage change at constant prices)

	1979	1977	1978	1979	1980	1981
	In billions of dinars at current prices		Actuals		Provisional actual	Plan
Private consumption	622.2	7.0	7.0	6.0	0.5 2/	2.5
Public consumption 3/	114.9	7.4	5.3	7.9	3.4	0.7
Gross fixed capital formation	419.4	11.7	13.4	4.6	-1.5	-5.3
Gross domestic expenditure	1,254.8	11.7	4.8	9.5	1.7	--
Exports: goods and services	196.2	-4.4	-1.9	3.4	7.6	7.0
Imports: goods and services	296.3	12.5	-1.3	9.8	-14.6	-3.0
Gross social product	1,165.4	8.0	6.8	7.0	3.1	3.2
Memorandum item						
Gross social product deflator		14.7	15.0	20.7	30.0	20.0

Source: Data supplied by the Yugoslav authorities.

1/ Based on material product national income accounting according to Yugoslav methodology, which excludes services rendered to individuals from the gross material product. Gross domestic product is estimated to be about 15 per cent higher than gross social product for 1980.

2/ While there is a consensus among the authorities about the growth rate of real gross social product in 1980, considerable uncertainty exists about the magnitude of the rise in real private consumption and consequently of the change in stocks.

3/ Includes material costs of general and material consumption only. In particular, it excludes personal income payments. As a result, the increase in 1980 of 3.4 per cent, greatly overestimates the result for public sector consumption on an SNA basis, which would almost certainly show a decline in real terms.

Table 3. Yugoslavia: National Accounts, 1970-85 1/
(Percentage change; at constant prices)

	1979	1970-75	1976-78	1980	1981-85
	In billions of dinars; at current prices	Annual Average	Annual Average	Est.	Annual Average (Plan)
Private consumption	622.2	5.5	6.1	0.5	2.5
Public consumption 2/	114.9	5.4	5.4	3.4	0.7
Gross fixed capital formation	419.4	7.2	10.9	-1.5	-5.3
Increase in stocks 3/	98.3	...	...	(1.8)	(0.4)
Gross domestic expenditure	1,254.8	5.5	5.6	1.7	2.6
Exports	196.2	7.3	1.4	7.6	7.0
Imports	296.3	6.0	2.1	-14.6	-3.0
Gross social product	1,165.4	5.9	6.3	3.1	3.2
Memorandum item: Gross social product deflator	...	...	...	30.0	20.0
					14.4

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

1/ Based on material product national income accounting according to Yugoslav methodology, which excludes services rendered to individuals from the gross material product. Gross domestic product is estimated to be about 15 per cent higher than gross material product or gross social product.

2/ Includes material costs of general and collective consumption only. Also see footnote 3 in Table 1.

3/ Includes statistical discrepancy; percentage changes indicate contribution to growth in real gross social product.

Table 4. Yugoslavia: Gross Social Product by Sector 1/

	1978	1971-75	1976-80	Proj. 1981-85
	Percentage of total	Percentage change at constant prices		
Manufacturing and mining	37.2	7.9	6.9	5.0
Of which:				
Energy	4.9	7.3	6.9	7.1
Basic metals	3.3	8.0	4.3	7.0
Equipment and consumer durables	9.5	9.1	7.2	3.9
Nonmetallic minerals and construction material	2.2	8.3	6.3	5.7
Chemicals	3.5	12.0	9.5	7.3
Other	13.8	7.1	5.8	4.2
Agriculture, forestry, and fishing	13.6	2.9	1.9	4.3
Trade and catering	21.1	5.7	5.6	4.8
Construction	11.4	4.0	7.9	1.0
Transport and communications	8.3	5.7	5.3	5.0
Arts, crafts, and others 2/	8.4	7.2	5.3	5.5
Total	100.0	5.9	5.7	4.5

Sources: Data provided by the Yugoslav authorities, and Fund staff estimates.

1/ Based on material product national income accounting according to Yugoslav methodology, which excludes services rendered to individuals from the gross material product. Gross domestic product is estimated to be about 15 per cent higher than gross material product or gross social product.

2/ Includes public utility production.

Table 5. Yugoslavia: Gross Fixed Investment by Sector 1/

(Percentage share in total)

	1971-75	1976-80	1981-85
Total fixed investment	100.0	100.0	100.0
Of which:			
Productive sector	73.7	70.2	72.0
Industry and mining	36.2	38.3	...
Agriculture and fishing	6.7	4.2	...
Forestry	0.7	0.5	...
Water management	...	0.7	...
Construction	2.5	4.7	...
Transportation and communications	13.0	8.6	...
Trade	8.6	4.0	...
Catering and tourism	...	2.4	...
Handicrafts	1.4	0.6	...
Public utilities	3.7	3.8	...
Financial and other services	...	2.4	...
Nonproductive sector	26.3	29.8	28.0
Housing	15.3	18.7	...
Education and culture)		3.6	...
Health and social services)	7.3	2.7	...
Socio-political organizations	3.7	4.8	...
<u>Memorandum item:</u>			
Energy sector	8.2	12.2	...

Sources: Data provided by the Yugoslav authorities.

1/ Sectoral classification for the period 1971-75 plan period differs from that for 1976-80. Investment in agriculture in 1971-75 includes water management and social activities (health, insurance, education and culture) for the sector. Information on investment in the financial and other services is only available since 1977.

Table 6. Yugoslavia: Ratio of Production to Consumption for
Major Selected Commodities

(In percentages)

	1975	Est. 1980	Plan 1985
Energy			
Coal	100.0	100.0	100.0
Petroleum	30.3	26.7	24.0
Metals			
Bauxite	192.3	107.1	116.7
Aluminum	140.0	95.0	137.5
Iron ore	89.8	72.3	70.8
Iron	95.2	83.3	77.8
Lead	165.8	100.0	117.6
Ferronickel	--	--	750.0
Zinc	160.3	134.3	163.6
Nonmetallic minerals			
Cement	98.1	94.8	103.2
Clay (high resistance)	100.0	94.8	100.0
Chemicals			
Ammonia	100.0	90.9	100.0
Chlorine	100.0	100.0	100.0
Phosphoric acid	100.0	100.0	118.1
Sulfuric acid	100.0	100.0	105.0
Agricultural products			
Corn	118.5	97.9	108.6
Wheat	83.0	91.0	100.0
Sugar beet	100.0	100.0	100.0
Sugar	79.3	98.6	124.3
Meat	105.2	102.9	108.1
Milk	100.0	100.0	100.0
Edible oils	81.4	85.7	126.7
Rice	51.1	44.0	67.3
Tobacco	155.3	129.1	136.4

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

Table 7. Yugoslavia: Domestic Energy Consumption by Sources
1970-85

(Percentage share of total)

	1970	1975	1979	<u>Est.</u> 1980	<u>Proj.</u> 1981	<u>Proj.</u> 1985
Coal and Coke	43	37	33	35	38	41
Petroleum and petroleum products	36	42	44	40	36	35
Natural gas	4	5	6	8	10	11
Hydroelectric and nuclear power	<u>17</u>	<u>16</u>	<u>17</u>	<u>17</u>	<u>16</u>	<u>13</u>
Total energy consumption	100	100	100	100	100	100
Of which:						
Imported energy	(32)	(35)	(44)	(40)	(39)	(39)

Source: Data supplied by the Yugoslav authorities.

Table 8. Yugoslavia: Oil--Imports, Exports, Domestic
Production, and Consumption, 1976-80

(In thousands of tons)

	1976	1977	1978	1979	1980 1/ Forecast
Imports					
Crude oil	8,293	9,650	10,380	11,814	10,850
Refined products	913	1,330	1,640	1,412	1,560
Exports					
Refined products	268	1,033	1,074	750	870
Total net imports	8,939	9,947	10,946	12,476	11,540
Domestic production of crude oil	3,880	3,951	4,076	4,143	4,200
Consumption 4/	12,819	13,898	15,022	16,619	15,740
Price of imported crude oil 2/	12.9	13.9	13.9	23.2	36.0 3/

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

1/ Based partly on actual data for the first 10 months of 1980.

2/ U.S. dollars per barrel.

3/ Staff estimate.

4/ Including changes in stocks.

Table 9. Yugoslavia: Annual Average Changes in Price Indices, 1977-81

(Annual percentage change)

	1977	1978	1979	1980 <u>1/</u>
Producers' prices				
Industrial goods, total	<u>9.5</u>	<u>8.3</u>	<u>13.2</u>	<u>26.2</u>
Investment goods	9.5	5.3	6.1	11.4
Semifinished goods	8.8	7.9	16.0	33.1
Consumption goods	10.7	9.7	11.1	19.9
Agricultural goods, total	12.1	11.4	25.0	29.3 <u>2/</u>
Retail prices				
General index	<u>13.3</u>	<u>13.4</u>	<u>21.9</u>	<u>29.4</u>
Agricultural goods	13.6	15.4	20.4	33.2
Industrial goods	12.4	13.3	22.9	30.5
Services	13.6	13.9	21.7	22.6
Cost of living				
General index	<u>15.0</u>	<u>14.3</u>	<u>20.4</u>	<u>29.5</u>
Food	19.0	15.2	18.3	30.7
Clothing	11.1	16.8	20.7	23.5
Rent	12.4	14.5	18.4	19.7
Services <u>3/</u>	13.6	14.5	26.4	20.3
Export prices <u>4/</u>	13.0	9.0	15.0	20.0
Import prices <u>4/</u>	14.0	5.0	19.0	23.0

Source: Data supplied by the Yugoslav authorities.

1/ January-November 1980, compared with January-November 1979.

2/ January-September 1980, compared with January-September 1979.

3/ Exclusive of rent.

4/ Unit values of goods in U.S. dollars.

Table 10. Yugoslavia: Twelve-Monthly Changes in Price Indices

(Percentage changes in 12 months to end of period)

	1977	1978	1979	1980 <u>1/</u>
Producers' prices				
Industrial goods, total	9.8	8.9	15.2	38.5
Investment goods	10.5	5.1	5.3	19.9
Semifinished goods	9.4	9.8	17.8	45.7
Consumption goods	10.0	8.5	13.1	32.2
Agricultural goods, total	5.7	12.6	23.6	29.4 <u>2/</u>
Retail prices				
General index	14.0	15.7	23.9	37.4
Agricultural goods	13.3	14.0	25.8	42.5
Industrial goods	14.5	16.5	24.0	39.2
Services	15.0	14.3	24.0	23.4
Cost of living				
General index	14.1	15.8	23.0	36.7
Food	14.1	14.1	22.7	40.6
Clothing	15.1	17.6	22.2	27.2
Rent	12.7	16.1	18.7	25.1
Services	14.7	14.0	21.6	21.8

Sources: Indeks; and data supplied by the Yugoslav authorities.

1/ November 1980, compared with November 1979.

2/ September 1980, compared with September 1979.

Table 11. Yugoslavia: Net Personal Income per Employee by Sector

	1977	1978	1979	1980 Jan.-Aug.	1977	1978	1979	1980 Jan.-Aug. 1/
	Dinars per month				Annual percentage change			
Manufacturing, mining, and quarrying	3,927	4,732	5,688	6,548	17.7	20.5	20.2	19.0
Agriculture and fishing	3,921	4,494	5,316	6,078	13.1	14.6	18.3	21.0
Forestry	3,863	4,599	5,665	6,554	22.4	19.1	23.2	21.0
Construction	4,090	4,927	5,911	6,716	18.1	20.5	20.0	18.0
Transportation and communications	4,478	5,410	6,551	7,497	18.2	20.8	21.1	19.0
Trade	4,135	5,004	6,102	6,779	22.3	21.0	21.9	15.0
Catering and tourism	3,530	4,319	5,203	5,964	16.6	22.4	20.5	19.0
Arts and crafts	4,268	5,231	6,399	7,332	22.4	22.6	22.3	19.0
Housing and public utilities	4,115	5,005	6,065	6,929	19.8	21.6	21.1	18.0
"Noneconomic" sector	4,865	5,923	7,078	8,012	19.7	21.7	19.5	18.0
Total socialized sector	4,198	5,075	6,113	6,964	18.7	20.9	20.5	18.0

Source: Data supplied by the Yugoslav authorities.

1/ Compared with corresponding period of 1979, with rates of change rounded to the nearest percentage point.

Table 12. Yugoslavia: Monetary Survey
(Change in billions of dinars)

	End-1979 Level in billions of dinars	1980				1981			
		Actual		Estimate		Projected			
		I	II	III	IV	I	II	III	IV
Net foreign assets	-112.0	-31.0	-66.8	-11.4	27.2	-14.0	-10.0	-7.0	-15.0
Domestic credit 1/ Of which:	1,201.3	60.1	107.0	79.3	90.3	96.0	83.0	80.0	86.0
National Bank credit to the Federation	(9.9)	(4.7)	(4.5)	(--)	(--)	(4.6)	(--)	(--)	(--)
Money supply 2/	375.2	11.0	13.1	31.5	34.2	19.0	23.0	30.0	30.0
Quasi-money 3/	560.2	43.6	101.1	70.1	83.7	63.0	50.0	43.0	41.0
Other items, net	153.9	4.5	-74.0	-33.7					

Source: Data supplied by the Yugoslav authorities.

1/ Apart from bank loans extended in dinars, includes foreign exchange claims on domestic clients, and investments in short-term and long-term securities.

2/ Definition of the National Bank of Yugoslavia, which includes government demand deposits.

3/ Comprises foreign exchange deposits of residents, other sight deposits, time deposits, restricted deposits, securities issued by banks, and claims on banks in respect of pooled resources.

Table 13. Yugoslavia: Sectoral Distribution of the Money Supply 1/

(End of period)

	1978	1979	<u>1980</u> Oct.	1977	1978	1979	<u>1980</u> Oct.	2/
	Percentage of total			Annual percentage change				
Total money supply	100.0	100.0	100.0	20.0	28.1	17.3	25.0	
Socialist enterprises	42.6	41.2	42.0	23.3	17.2	13.6	27.1	
Federal Government	1.9	2.3	2.2	44.4	64.1	40.6	17.7	
Other sociopolitical communities	8.2	9.0	9.6	8.7	66.3	27.7	19.7	
Social funds	1.2	1.5	1.0	-10.3	11.4	46.2	-1.2	
Other organizations	17.1	17.4	18.2	28.3	21.6	19.7	21.3	
Households	24.6	25.6	26.8	18.7	32.6	22.1	29.6	
Rest of the world	0.1	0.1	0.2	66.7	--	--	25.0	

Sources: National Bank of Yugoslavia, Quarterly Bulletin; and data supplied by the Yugoslav authorities.

1/ National Bank definition of the money supply.

2/ Compared with October 1979.

Table 14. Yugoslavia: Selected Interest Rates
(In per cent per annum)

End of period	1977	1978	1979	1980 June
Central Bank rates of interest				
Rates charged by the national banks				
Official discount rate	6.0-8.0	6.0	6.0	6.0
Credits to banks for selective purposes	1.0-6.0	1.0-6.0	1.0-6.0	1.0-6.0
Credits to banks for liquidity purposes	8.0	8.0	8.0	8.0
Credits to nonbank sectors	0.001-6.0	1.0-3.0	1.0-3.0	1.0-3.0
Rates paid by the Central Bank				
Banks' obligatory reserves with the National Bank of Yugoslavia	3.0	3.0	3.0	3.0
Treasury bills issued by the National Bank of Yugoslavia	6.0-8.0	6.0-8.0	6.0-8.0	6.0-8.0
Liquidity reserves of the Post Office Savings Bank	8.5	8.5	8.5	8.5
Rates of interest of commercial banks and other financial institutions				
Rates charged to borrowers				
Discount of securities				
Securities with a maturity of up to 90 days	7.24	7.42	7.53	7.58
Securities with a maturity of over 90 days	8.0	7.53	7.88	9.24
Short-term credits	9.31	9.6	8.78	9.48
Medium- and long-term credits	8.58	8.99	6.91	6.55
Long-term credits to OALs for housing constructions	5.54	4.88	6.88	6.16
Credits to households				
Consumer credits	12.0	12.0	12.0	12.0
Credits for housing construction	6.54	5.21	5.57	5.67
Rates paid to lenders				
Time deposits of OALs				
Up to one year	3.42	4.55	5.09	5.53
Over one year	4.8	6.04	7.56	5.64
Deposits of households				
Savings sight deposits	7.5	7.5	7.5	7.5
Savings time deposits				
From one to two years	9.0	9.0	9.0	9.0
Over two years	10.0	10.0	10.0	10.0
Short-term interbank lending for liquidity purposes	9.76	9.65	9.93	12.42

Source: National Bank of Yugoslavia, Quarterly Bulletin, various issues.

Table 15. Yugoslavia: Budget of the Federation

(In millions of dinars)

	1977	1978	1979	1980		1981 Plan
				Original	Revised	
Revenue						
Customs duties and other import fees	39,755	23,333	24,591	30,591	19,640	35,437
Contributions from republics and provinces	38,996	20,827	28,436	36,914	38,469	52,562
General turnover and sales taxes	--	26,273	37,700	48,859	47,120	73,377
Exchange profits	80	--	--	--	--	--
Other taxes	96	121	169	155	304	230
Nontax revenues	1,085	2,047	2,681	2,568	2,701	2,850
Total revenue	80,012	72,601	93,577	119,088	108,234	164,456
Expenditure						
Administration	10,908	13,066	15,621	17,491	17,626	21,380
Defense	38,131	42,595	55,084	73,598	76,276	101,894
Grants to republics and provinces	6,139	7,028	10,502	13,834	19,334	16,277
Grants to funds and communities of interest	10,410	12,441	14,794	18,519	19,197	25,237
Intervention in the economy	22,257	1,415	--	--	--	--
Foreign trade	(19,809)	(1,277)	--	--	--	--
Agriculture	(2,448)	(138)	--	--	--	--
Investment	547	551	674	765	765	215
Other or discrepancy	590	790	618	1,122	1,122	-1,687
Total expenditure	88,982	77,886	97,293	125,329	129,320	163,320
Surplus or deficit	-8,970	-5,285	-3,716	-6,271	-21,086	-1,136
Financing, net domestic <u>1/</u>	8,970	5,285	3,716	6,271	21,086	1,136
Bond issues	3,980	--	--	--	14,844	--
Bank credits, net <u>2/</u>	13,000	...	--	--	--	--
Of which:						
National Bank	(11,200)	(9,487)	(8,451)	(9,200)	(9,200)	(4,600)
Repayment of bank credits <u>2/</u>	-562	-847	-1,678	-1,373	-1,373	-2,974
Bond amortization	-3,621	-3,055	-2,857	-1,390	-1,350	-205
Allocation to budgetary reserves	-284	-300	-200	-236	-236	-285
Additions to deposits and cash balances	-1,700	--	--	--	--	--
Other or residual	-2,405	--	--	--	--	--

Sources: Data supplied by the Yugoslav authorities; budget documents published in Sluzbeni List; and National Bank of Yugoslavia, Annual Report, 1977 and Quarterly Bulletins.

1/ Foreign loans are no longer used to finance the federal budget deficit. Repayment of most previously contracted foreign loans is now the responsibility of the organizations of associated labor, which were the actual beneficiaries of the loans.

2/ For the 1977 outturn, data on repayment of bank credits are included in net bank credits. For the following years, they are not included.

Table 16. Yugoslavia: Public Sector Operations
by Level of Government
(In billions of dinars)

	1976	1977	1978	1979 <u>1/</u>
Federal budget				
Revenues	64.9	80.0	72.6	93.6
Expenditures	75.5	89.0	77.8	97.3
Of which:				
Transfers to other budgets	(5.4)	(6.1)	(7.0)	(10.5)
Transfers to funds and communities of interest	(9.6)	(10.4)	(13.8)	(15.2)
Surplus or deficit	-10.6	-9.0	-5.2	-3.7
Budgets of republics and autonomous provinces				
Revenues	21.0	25.5	37.5	50.2
Of which:				
Grants from other governmental units	(5.2)	(6.1)	(7.0)	(10.5)
Expenditures	21.9	25.3	37.1	50.1
Of which:				
Transfers to other governmental units <u>2/</u>	(1.7)	(2.5)	(3.0)	(4.9)
Surplus or deficit	-0.9	0.2	0.4	0.1
Budgets of communes and cities				
Revenues	20.2	22.7	30.9	39.8
Of which:				
Grants from other governmental units	(1.7)	(--)	(3.0)	(3.3)
Expenditures	20.5	26.8	31.5	38.5
Of which:				
Transfers to other governmental units	(0.3)	(--)	(--)	(...)
Surplus or deficit	-0.3	-4.1	-0.6	1.3
Social security funds <u>3/</u>				
Revenues	85.2	105.8	135.8	165.3
Of which:				
Grants from federal budget	(7.8)	(7.1)	(12.4)	(15.2)
Grants from other budgets	(--)	(2.5)	(--)	(...)
Expenditures	89.0	105.3	136.0	162.4
Surplus or deficit	-3.8	0.5	-0.2	2.9
Funds and interest communities <u>4/</u>				
Revenues	67.1 <u>5/</u>	89.7	131.3	152.4
Of which:				
Grants from federal budget	(1.8)	(3.3)	(1.4)	(1.6) <u>6/</u>
Expenditures	63.4	84.5	130.7	152.1
Surplus or deficit	3.7	5.2	0.6	0.3
Consolidated public sector <u>7/</u>				
Revenues	241.4	304.7	384.3	470.7
Expenditures	253.3	311.9	389.3	469.8
Surplus or deficit	-11.9	-7.2	-5.0	0.9
Financing				
External, net	-1.5	-0.1	-0.1	--
Domestic, net	13.4	7.3	5.1	-0.9

Sources: Data supplied by the Yugoslav authorities; Sluzbeni List; National Bank of Yugoslavia, Annual Reports and Quarterly Bulletins; and IMF, Government Finance Statistics Yearbook.

1/ Preliminary.

2/ Not including agreed contributions to the federal budget.

3/ Including communities for child protection and health, pension, and invalid insurance.

4/ Excluding social security funds above and the fund for the development of the under-developed regions. Data on these funds and interest communities are estimated by treating them as a residual using data on the consolidated public sector, grants and transfers, and on expenditures and revenues of other levels of government.

5/ Due to rounding errors, revenues were adjusted upward by Din 0.5 billion.

6/ From the republics and autonomous provinces.

7/ Exclusive of grants and transfers among governmental units.

Table 17. Yugoslavia: Balance of Payments, 1977-81 1/

(In millions of U.S. dollars)

	1977	1978	1979	Estimated 1980	Projection 1981
A. Goods and services and unrequited transfers					
Exports f.o.b.	-1,346	-1,283	-3,661	-2,200	-1,800
Imports c.i.f.	5,191	5,809	6,794	8,900	10,550
Trade balance	-9,789	-10,439	-14,019	-14,900	-16,530
	-4,598	-4,630	-7,225	-6,000	-5,980
Services and unrequited transfers					
<u>Credits:</u>					
Workers and emigrants remittances	2,505	2,950	3,393	4,050	4,280
Travel	915	1,130	1,183	1,600	1,800
Transportation	1,100	1,200	1,405	1,650	1,800
Interest	135	170	188	165	200
Other	740	810	1,313	1,500	1,600
Total	5,395	6,260	7,482	8,965	9,680
<u>Debits:</u>					
Workers and emigrants remittances	-725	-1,280	-1,683	-2,300	-2,200
Travel	-98	-128	-155	-120	-135
Transportation	-505	-590	-674	-770	-850
Interest	-410	-495	-821	-1,200	-1,450
Other	-405	-420	-585	-775	-865
Total	-2,143	-2,913	-3,918	-5,165	-5,500
Services and unrequited transfers (net)	3,252	3,347	3,564	3,800	4,180
B. Long-term capital					
Long-term loans (received)					
Drawings	2,665	2,800	2,438	3,620	3,605
Of which: National Bank	(48)	(--)	(19)	(850)	(800)
Repayment	-1,050	-1,300	-1,304	-1,920	-1,905
Of which: National Bank	(-102)	(-50)	(-148)	(-115)	(...)
Long-term loans (extended) (net)	-183	-106	-125	-300	-250
Total	1,432	1,394	1,009	1,400	1,450
C. Total (A through B)	86	111	-2,652	-800	-350
D. Bilateral balances	161	-65	742	358	300
E. Short-term capital including errors and omissions	-151	33	277	26	-738
F. Total (A through E)	96	79	-163	-416	-788
G. Allocation of SDRs	--	--	37	38	38
H. Compensatory borrowing	75	350	250	250	400
I. Total (A through H)	171	429	-1,346	-128	-350
J. Reserve movements					
Use of Fund credit	-112	-74	218	308	650
SDRs	-3	-7	-34	...	...
Reserve position in the Fund	--	-81	81	...	...
Gold	-5	-10	-4	...	...
Official foreign exchange (increase -)	-51	-257	1,085	-180	-300
Total	-171	-429	1,346	128	350

Sources: National Bank of Yugoslavia; and staff estimates.

1/ Data on capital account converted on statistical exchange rate basis.

Table 18. Yugoslavia: Balance of Payments
(Convertible Currency Area), 1978-81 ^{1/}

(In millions of U.S. dollars)

	1978	1979	Estimated 1980	Projection 1981
A. Goods and services and unrequited transfers	-1,272	-3,304	-1,880	-1,500
Exports f.o.b.	3,971	4,766	5,850	7,050
Imports c.i.f.	-8,373	-11,336	-11,300	-12,345
Trade balance	-4,402	-6,570	-5,450	5,295
Services and unrequited transfers (net)	3,130	3,266	3,570	3,795
B. Long-term capital				
Long-term capital received				
Drawings	2,430	2,188	3,300	3,400
Of which:				
National Bank	(--)	(19)	(850)	(800)
Repayments	-1,200	-1,169	1,760	-1,725
Of which:				
National Bank	(-50)	(-148)	(-115)	(...)
Long-term loans extended	-97	-123	270	-250
Total	1,133	896	1,270	1,425
C. Total (A + B)	-139	-2,408	-610	-75
D. Short-term capital including errors and omissions excl. Item G	218	775	194	-713
E. Total (A through D)	79	-1,633	-416	-788
F. Allocation of SDRs	--	37	38	38
G. Compensatory borrowing	350	250	250	400
H. Total (A through G)	429	-1,346	-128	-350
I. Reserve movements				
Use of Fund credit	-74	218	308	650
SDRs	-7	-34	...	...
Reserve position in the Fund	-81	81	...	...
Gold	-10	-4	...	...
Official foreign exchange (increase -)	-257	1,085	-180	-300
	-429	1,346	128	350

Sources: National Bank of Yugoslavia, and staff estimates.

^{1/} Data on capital account converted on statistical exchange rate basis.

Table 19. Yugoslavia: External Reserves
(In millions of U.S. dollars; end of period)

	Reserve Position in the Fund	National Bank of Yugoslavia Official Reserves				Foreign Assets of Deposit Banks	Total
		SDRs	Gold	Foreign Exchange	Total		
1975	--	34	60	777	871	350	1,221
1976	--	10	59	1,980	2,049	658	2,707
1977	--	13	64	2,031	2,108	666	2,774
1978 I	--	12	66	2,184	2,263	714	2,978
II	77	12	66	2,000	2,155	820	2,976
III	79	24	66	2,283	2,453	869	3,322
IV	81	20	69	2,288	2,457	783	3,245
1979 I	78	52	71	1,845	2,046	727	2,773
II	--	76	71	1,711	1,858	664	2,522
III	--	72	71	1,654	1,797	942	2,739
IV	--	54	73	1,203	1,330	638	1,968
1980 I	--	74	75	762	911	424	1,335
II	--	100	78	782	960	843	1,803
III	--	79	78	802	959	1,273	2,232
November	--	67	78	985	1,130	1,097	2,227

Sources: IMF, International Financial Statistics; and National Bank of Yugoslavia.

Table 20. Yugoslavia: Selected Indices on External Competitiveness
(Period average)

	Trade Weighted Effective Exchange Rate Index 4/ (1)	Indices for Real Effective Exchange Rates 1/			
		Adjusted for		Adjusted for	
		Relative Wholesale		Relative Unit Labor	
		Prices 2/		Costs In Manufacturing 3/	
		Export	Import	Export	Import
	<u>weighted 5/</u>	<u>weighted 6/</u>	<u>weighted 5/</u>	<u>weighted 6/</u>	
	(2)	(3)	(4)	(5)	
(1975 = 100)					
1976	103.6	104.2	103.4	109.5	108.3
1977	100.6	104.3	101.7	111.8	108.6
1978	89.7	100.5	94.1	111.9	104.1
1979	83.2	100.4	91.5	112.0	101.4
1978 I	93.8	103.5	97.8	112.0	105.5
II	91.6	101.2	95.5	110.2	103.4
III	88.2	99.2	92.7	117.4	109.0
IV	85.2	98.0	90.3	107.9	98.6
1979 I	85.2	99.9	91.9	110.8	101.2
II	84.7	100.6	92.6	112.2	102.8
III	82.0	101.3	91.9	120.9	109.2
IV	80.8	99.8	89.4	104.1	92.5
1980 I	77.8	100.9	88.5	103.1	89.7
II	70.5	96.4	82.9	92.5	78.7
III	57.3	...	...	...	...

Sources: Staff estimates; and United Nations, Statistical Yearbook and Monthly Bulletin of Statistics, various issues.

1/ Trade weighted foreign exchange value of the Yugoslav dinar adjusted for Yugoslavia's prices or costs relative to Western trading partners.

2/ Weighted average of Yugoslav producer prices of industrial goods (75 per cent) and agricultural goods (25 per cent) relative to a weighted average of wholesale prices of trading partners.

3/ Unit labor costs in the Yugoslav manufacturing sector relative to a weighted average of unit labor costs in manufacturing sector of the 14 industrial countries.

4/ Weighted by bilateral external trade flows with Western countries in 1975.

5/ Weighted by exports to Western trading partners in 1975.

6/ Weighted by imports from Western trading partners in 1975.

Table 21. Yugoslavia: Foreign Trade Indicators
(Percentage change over previous year, in terms of US\$)

	1976	1977	1978	1979	1980 <u>2/</u>
Exports					
Value	16.7	8.0	11.9	16.9	31.2
Volume <u>1/</u>	15.2	-2.7	2.7	1.6	9.2
Price	4.0	11.0	9.0	15.0	20.0
Imports					
Value	-7.4	32.5	6.6	34.3	8.0
Volume <u>1/</u>	-10.1	16.6	1.5	12.9	-12.2
Price	3.0	13.6	5.0	19.0	23.0
Terms of trade	1.0	-2.6	3.8	-4.3	-2.4

Sources: Data supplied by the Yugoslav authorities; IMF, International Financial Statistics; and staff calculations.

1/ Derived from value data converted at current exchange rates and price indices reported to IFS.

2/ January-November 1980 with respect to same period of previous year.

Table 22. Yugoslavia: Foreign Trade

(In millions of U.S. dollars)

	Exports (f.o.b.)	Percentage Change Over Same Period of Previous Year	Imports (c.i.f.)	Percentage Change Over Same Period of Previous Year	Trade Balance
1974	3,805	33.4	7,542	66.7	-3,737
1975	4,072	7.0	7,697	2.0	-3,625
1976	4,878	19.8	7,366	-4.3	-2,488
1977	5,254	7.7	9,634	30.8	-4,380
1978	5,667	7.9	9,983	3.6	-4,316
1979	6,491	14.5	12,863	28.8	-6,372
1st quarter 1979	1,394	10.0	3,000	29.4	-1,606
2nd quarter 1979	1,579	21.2	3,214	32.7	-1,635
3rd quarter 1979	1,590	10.7	3,160	31.1	-1,570
4th quarter 1979	1,928	16.0	3,488	23.3	-1,560
1st quarter 1980	2,077	49.0	3,965	32.2	-1,888
2nd quarter 1980	2,024	28.2	3,422	6.5	-1,398
3rd quarter 1980	2,202	38.5	3,740	18.4	-1,536

Source: IMF, International Financial Statistics.

Table 23. Yugoslavia: Commodity Composition of Foreign Trade

	Exports				Imports			
	Percentage Share of Total		Per cent Change Over Previous Year 1/		Percentage Share of Total		Per cent Change Over Previous Year 1/	
	1970	1979	1980 2/	1979	1970	1979	1980 2/	1979
	100.0	100.0	100.0	14.5	100.0	100.0	100.0	28.8
Economic classification	100.0	100.0	100.0	14.5	100.0	100.0	100.0	28.8
Raw materials and semi-manufactures	52.4	53.5	52.1	23.5	63.2	64.7	69.1	31.5
Capital goods and equipment	14.4	17.5	15.3	0.4	17.9	24.4	20.8	22.8
Consumer goods	33.2	29.0	32.6	9.1	15.4	10.9	10.1	27.8
SITC classification	100.0	100.0	100.0	14.5	100.0	100.0	100.0	28.8
Food	15.2	8.3	10.0	-4.9	7.0	7.2	6.3	57.0
Beverages and tobacco	3.5	2.2	1.7	13.9	0.2	0.2	0.2	57.5
Raw materials	9.4	9.2	8.2	31.4	10.9	9.2	10.2	17.2
Fuels and lubricants	1.2	3.0	2.7	32.7	4.8	17.4	23.0	56.6
Animal and vegetable fats	0.1	0.7	0.3	182.4	0.7	0.2	0.4	-11.3
Chemicals	5.8	9.6	10.9	32.2	9.3	11.3	11.8	27.4
Manufactured goods and equipment	29.3	23.6	22.0	22.0	28.8	15.9	15.7	20.3
Electrical and transport machinery	22.7	29.8	28.3	7.6	33.2	34.4	29.1	22.1
Miscellaneous manufactured goods	12.8	13.3	15.5	8.4	5.1	4.1	3.2	24.4
Other	---	0.3	0.4	-45.8	---	0.1	0.1	-21.1
								-40.6

Source: Social Accounting Service; Index.

1/ Value data converted at statistical exchange rate.

2/ January-September.

3/ January-August.

Table 24. Yugoslavia: Geographical Distribution of Exports 1/

	Percentage Share of Total Exports				Percentage Growth Over Previous Year		
	1970	1977	1978	1979	1977	1978	1979
Developed countries	56.8	40.0	38.7	41.5	3.1	3.6	22.7
of which:							
Industrial countries	52.9	36.9	34.5	38.1	2.5	5.9	25.5
Of which:							
United States	5.3	5.7	6.5	5.7	-15.9	25.0	0.2
Austria	3.0	1.8	1.9	2.2	-5.7	11.1	37.7
EEC <u>2/</u>	39.2	26.5	23.0	28.4	5.2	-6.3	26.9
Of which:							
France	3.8	2.6	2.1	2.7	7.5	-11.2	45.0
Germany	11.7	7.4	8.3	9.2	-8.4	21.0	26.4
Italy	15.1	12.6	9.4	10.5	11.4	-20.0	28.8
United Kingdom	5.7	1.3	0.9	1.2	14.0	-20.9	49.9
Other developed	3.9	3.1	4.2	3.4	11.6	49.3	0.7
Less developed countries	10.7	19.1	19.1	16.4	31.4	5.4	2.4
Of which:							
Oil exporting countries	1.9	8.1	9.3	8.7	28.9	33.8	3.5
CMEA and other socialist countries	32.5	40.8	42.2	42.1	3.9	16.4	12.4
Of which:							
Czechoslovakia	5.3	3.9	4.3	5.1	-10.1	18.7	34.1
German Democratic Republic	3.0	4.1	4.3	4.0	12.9	11.3	8.2
Hungary	2.8	1.9	2.1	2.7	10.5	22.5	43.9
Poland	3.4	4.3	3.8	4.4	11.4	-3.8	33.2
Romania	1.8	2.1	2.0	2.0	3.5	0.7	15.0
USSR	<u>14.4</u>	<u>21.7</u>	<u>24.6</u>	<u>21.6</u>	<u>-0.3</u>	<u>22.5</u>	<u>0.5</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>8.0</u>	<u>7.9</u>	<u>14.5</u>

Source: Data supplied by the Yugoslav authorities.

1/ Value data converted at statistical exchange rates.

2/ Membership as of 1973.

Table 25. Yugoslavia: Geographical Distribution of Imports 1/

	Percentage Share of Total Imports				Percentage Growth Over Previous Year		
	1970	1977	1978	1979	1977	1978	1979
Developed countries	69.2	56.9	56.6	57.5	35.8	2.6	31.2
of which:							
Industrial countries	65.5	54.2	54.2	55.4	34.6	8.7	31.5
of which:							
United States	5.6	5.7	6.2	8.2	47.5	12.9	70.6
Austria	5.3	2.8	2.7	3.4	9.1	25.3	29.9
EEC <u>2/</u>	46.6	39.5	38.4	38.3	32.3	0.7	26.7
Of which:							
France	3.8	5.2	4.9	5.0	56.6	-1.1	31.1
Germany	19.8	16.3	18.0	17.9	27.5	14.7	28.2
Italy	13.2	10.7	8.3	8.5	35.4	-19.6	31.7
United Kingdom	6.2	3.7	3.4	2.6	16.6	-4.0	-0.6
Switzerland	4.5	2.0	2.6	2.3	20.8	39.2	13.8
Other developed countries	3.7	2.7	2.3	2.1	60.5	-9.5	23.7
Less developed countries	10.1	14.0	14.5	14.9	25.4	4.2	40.7
Of which:							
Oil exporting countries	1.9	6.1	7.1	9.3	11.9	28.5	59.7
CMEA and other socialist countries	20.8	29.1	28.9	27.6	24.4	5.6	18.9
Of which:							
Czechoslovakia	5.3	3.7	3.7	3.7	9.1	3.8	30.8
German Democratic Republic	2.6	3.2	2.6	2.6	42.3	-16.3	28.6
Hungary	1.7	2.4	2.9	1.9	84.3	25.9	-18.5
Poland	1.8	2.4	2.8	2.1	18.9	18.6	-0.9
Romania	1.2	2.0	2.0	1.5	-6.5	2.1	-1.5
USSR	<u>6.7</u>	<u>13.5</u>	<u>13.8</u>	<u>13.9</u>	<u>29.8</u>	<u>5.6</u>	<u>30.5</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>30.8</u>	<u>3.7</u>	<u>28.8</u>

Source: Data supplied by the Yugoslav authorities.

1/ Value data converted at statistical exchange rate.

2/ Membership as of 1973.

Table 26. Yugoslavia: External Debt Disbursed and Outstanding, 1976-80 1/

(In millions of U.S. dollars)

	End of Period Totals				Sept. 1980
	1976	1977	1978	1979	
A. Repayable in convertible currencies	<u>6,998</u>	<u>8,413</u>	<u>10,471</u>	<u>13,462</u>	<u>15,960</u>
Medium and long-term <u>2/</u>	<u>6,748</u>	<u>8,063</u>	<u>10,039</u>	<u>12,812</u>	<u>13,743</u>
Public or publicly guaranteed	(2,368)	(2,192)	(2,332)	...	...
Private, not officially guaranteed	(4,380)	(5,871)	(7,707)	...	...
Short-term <u>3/</u>	250	350	432	650	2,217
B. Repayable in bilateral currencies	<u>934</u>	<u>1,127</u>	<u>1,362</u>	<u>1,490</u>	<u>1,560</u>
C. Total (A and B)	<u>7,932</u>	<u>9,540</u>	<u>11,833</u>	<u>14,952</u>	<u>17,520</u>

Source: Data supplied by the Yugoslav authorities.

1/ Values converted at statistical exchange rate.

2/ Original maturity over one year (includes IMF drawings).

3/ Original maturity up to and including one year.

Table 27. Yugoslavia: External Debt Flows, 1976-80 1/
(In millions of U.S. dollars, unless otherwise specified)

	1976	1977	1978	1979	Est. 1980
A. Repayable in convertible currencies					
Drawings	1,751	2,289	2,430	2,188	3,300
Debt service	1,186	1,279	1,638	1,888	2,710
Amortization	(813)	(901)	(1,200)	(1,169)	(1,760)
Interest <u>2/</u>	(373)	(378)	(438)	(719)	(950)
B. Repayable in bilateral currencies					
Drawings	345	376	370	250	300
Debt service	99	163	117	172	205
Amortization	(90)	(149)	(100)	(135)	(160)
Interest <u>2/</u>	(9)	(14)	(17)	(37)	(45)
C. Total debt (A+B)					
Drawings	2,096	2,665	2,800	2,438	3,600
Debt service	1,284	1,442	1,756	2,060	2,915
Amortization	(903)	(1,050)	(1,300)	(1,304)	(1,920)
Interest <u>2/</u>	(381)	(392)	(456)	(756)	(995)
D. Debt service ratios <u>3/</u> (in per cent)					
a. Convertible currencies	15.8	14.8	16.5	15.6	19.0
b. Total	13.5	13.6	14.5	14.4	16.3

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

1/ Excludes transactions with the International Monetary Fund, and debt with original maturity of up to and including one year.

2/ Based on data valued at current exchange rates.

3/ Ratio of debt service to exports of goods and services (valued at current exchange rates).

Table 28. Yugoslavia: Medium- and Long-Term External Debt 1/
and Scheduled Debt Service Payments

(In millions of U.S. dollars)

	Amount Outstanding June 30, 1980		Schedule of Debt Service Payments				
	Disbursed	Including Undisbursed	1981	1982	1983	1984	Beyond 1984
A. Repayable in convertible currencies	13,720	17,005					
Amortization			1,700	1,500	1,650	1,800	10,355
Interest			1,000	1,200	1,400	1,600	...
Total debt service			2,700	2,700	3,050	3,400	...
B. Repayable in bilateral currencies	1,535	2,125					
Amortization			220	200	260	250	1,195
Interest			75	90	105	115	...
Total debt service			295	290	365	365	
C. Total (A and B)	15,255	19,130	1,920	1,700	1,910	2,050	11,550
Amortization			1,075	1,290	1,505	1,715	...
Interest			2,995	2,990	3,415	3,765	...
Total debt service							

Source: Data supplied by the Yugoslav authorities.

1/ Original maturity of more than one year; data valued on statistical exchange rate basis.

Table 29. Yugoslavia: Medium- and Long-Term Loans Extended,
Disbursements and Debt Service
(In millions of U.S. dollars)

	1977	1978	1979	1980	1981	1982	1983	1984	Beyond 1984
					Scheduled Repayments				
Loans Extended Outstanding									
Repayable in convertible currencies	1,116	1,107	1,220	1,509 1/					
Repayable in bilateral currencies	1,041	1,024	1,131	1,422 1/					
	75	83	89	87 1/					
Disbursements	418	395	419	519 2/					
Repayable in convertible currencies	401	362	392	508 2/					
Repayable in bilateral currencies	47	33	27	17 2/					
Amortizations	265	289	294	304 2/	250	280	320	350	309
Repayable in convertible currencies	221	265	269	290 2/	235	268	310	335	274
Repayable in bilateral currencies	44	24	25	14 2/	15	12	10	15	35

Source: Data provided by the Yugoslav authorities.

- 1/ Outstanding as of September 30, 1980.
2/ January-September, 1980.

Table 30. Yugoslavia: Quantitative Performance
Criteria for 1980 in Stand-By Arrangement

	1979		1980		1980	
	December 31	June 30	Sept. 30	Dec. 31	June 30	September 30
	Actual	Actual	Actual	Fore- cast	Under Program	December 31
Net domestic assets of the banking system; in billions of dinars	1,201	1,368	1,450	1,538	1,321	1,381 (1,450)
						1,466 (1,538)
Net credit of the National Bank to the Budget of the Federation; in billions of dinars	68.7	77.9	77.9	77.9	76.4	77.4 (77.9)
						77.9
Cumulative change in net convert- ible foreign assets of the National Bank; in millions of U.S. dollars 1/	...	-972	-937	-1,600	-900	-500 (-937)
						-- (-1,600)
Convertible currency debt out- standing; in billions of U.S. dollars 2/	12.3	13.1	13.3	13.1	13.6	14.2 (14.2)
						14.7 (13.1)

Source: Data supplied by the Yugoslav authorities.

1/ Net of exceptional borrowing by commercial banks.

2/ Debt outstanding in convertible currency with original maturities of more than one year. Excluding outstanding purchases from the Fund and increases in exceptional borrowings by the commercial banks in 1980. Valued at exchange rates prevailing on December 31, 1979.

Table 31. Yugoslavia: Quantitative Performance Criteria in Proposed Stand-By Arrangement for 1981

	1980		1981			
	September 30 Actual Level	December 31 Estimated Level	March 31	June 30	September 30	December 31 ^{1/}
Cumulative change in net domestic assets of the banking system; (in billions of dinars)	1,450	1,538	96	179	259	345
Cumulative change in net credit of the National Bank to the budget of the Federation; (in billions of dinars)	77.9	77.9	4.6	4.6	4.6	4.6
Cumulative change in net convertible foreign assets of the National Bank ^{2/}	...	...	-150	-350	-550	-750
(In millions of U.S. dollars)						
Cumulative change in convertible currency debt outstanding ^{3/}	13.7	14.1	...	1.0	...	1.7
(In billions of U.S. dollars)						

^{1/} Quantitative performance criteria for 1982 and 1983 to be determined at the time of the annual review.

^{2/} 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.

^{3/} 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.

Fund Relations with Yugoslavia 1/

Membership: Yugoslavia is an original member of the Fund. It continues to avail itself of the transitional arrangements under Article XIV.

Quota: SDR 415.5 million. Yugoslavia consented to the proposed maximum quota under the Seventh General Review.

Use of Fund credit: Total outstanding purchases SDR 629.2 million, including SDR 277.0 million under CFF, SDR 83.0 million under the Oil Facilities, SDR 144.4 million under the credit tranches and SDR 124.8 million under the Supplementary Financing Facility.

Fund holdings of dinars: SDR 1,011.7 million, or 243.5 per cent of quota; 126.8 per cent of quota excluding holdings related to CFF, Oil Facility, SFF, and holdings arising from the distribution of gold.

Current arrangement: Stand-by program covering the period from June 6, 1980 through December 31, 1981 in the amount of SDR 339.325 million in the second and third credit tranches, of which SDR 200.825 million is being provided under the Supplementary Financing Facility. (SDR 200 million had been drawn by end-December 1980.)

SDR position: Net cumulative allocations amount to SDR 155.2 million. Holdings amount to SDR 38.3 million or 24.7 per cent of net cumulative allocations.

Gold distribution: Received 177,144 fine ounces of gold in the four phases. Received profits amounting to US\$32.9 million in the three distributions; US\$11.0 million has been transferred to the Trust Fund.

Exchange rate system: The authorities do not maintain the exchange rate of the dinar within announced margins and, therefore, all transactions, with the exception of those affected under the procedures set forth for certain countries with which Yugoslavia has bilateral payments agreements, take place at a fluctuating exchange rate. However, the authorities intervene in the foreign exchange markets, when necessary, to ensure orderly conditions and to smooth out fluctuations in exchange rates. The buying and selling rates for the U.S. dollar in the foreign exchange market in Belgrade on December 12, 1980 were Din 29.1527 and Din 29,2403, respectively, per US\$1. Rates are quoted for certain other currencies.

1/ Position as of January 5, 1981.

Stand-By Arrangement--Yugoslavia

Annexed hereto is a letter dated January 15, 1981 from the Federal Secretary for Finance of Yugoslavia requesting a stand-by arrangement and setting forth:

(i) the objectives and policies that the authorities of Yugoslavia intend to pursue for the period of the stand-by arrangement;

(ii) the policies and measures that the authorities of Yugoslavia intend to pursue for the first year of the stand-by arrangement; and

(iii) the understandings of Yugoslavia with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Yugoslavia will pursue for the second and third years of the stand-by arrangement.

To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For a period of three years from , 1981, Yugoslavia will have the right, after making full use of any reserve tranche that it may have at the time of making a request for a purchase under this arrangement, to make purchases from the Fund in an amount equivalent to SDR 1,662 million, subject to paragraphs 2, 3, and 4 below, without further review by the Fund.

2. a. Until December 31, 1981, purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 544 million, provided that purchases shall not exceed the equivalent of SDR 176 million until May 15, 1981, the equivalent of SDR 302 million until August 15, 1981, and the equivalent of SDR 428 million until November 15, 1981. Until December 31, 1982, purchases under the stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 1,108 million. The right of Yugoslavia to make purchases during the second and third years shall be subject to such phasing as shall be determined. None of these limits shall apply to a purchase under the stand-by arrangement that would not increase the Fund's holdings of Yugoslavia's currency beyond the first credit tranche plus 12.5 per cent of quota.

b. Purchases under this arrangement shall be made from ordinary resources and from supplementary financing in the ratio of 1 to 1.2 until purchases under this stand-by arrangement reach SDR 291.68 million, and thereafter wholly from supplementary financing.

3. Yugoslavia will not make purchases under this arrangement that would increase the Fund's holdings of its currency beyond the first credit tranche plus 12.5 per cent of its quota:

a. During any period before December 31, 1981, in which:

(i) the limits on net domestic assets of the banking system referred to in paragraph 22 of the annexed letter have been exceeded; or

(ii) the limits on the net lending of the National Bank of Yugoslavia to the Budget of the Federation referred to in paragraph 22 of the annexed letter have been exceeded; or

(iii) the targets for the net convertible foreign assets of the National Bank of Yugoslavia, referred to in paragraph 24 of the annexed letter have not been met; or

(iv) the limits on the increase in outstanding foreign debt in convertible currencies referred to in paragraph 25 of the annexed letter are exceeded; or

b. throughout the second and third years if suitable performance clauses have not been established in consultation with the Fund as contemplated in paragraph 28 of the annexed letter or such clauses, having been established, are not being observed; or

c. throughout the duration of the arrangement if Yugoslavia:

(i) imposes or intensifies restrictions on payments and transfers for current international transactions; or

(ii) introduces or modifies multiple currency practices; or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII; or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Yugoslavia is prevented from purchasing under this arrangement because of this paragraph 3, purchases will be resumed only after consultation has taken place between the Fund and Yugoslavia and understandings have been reached regarding the circumstances in which such purchases can be resumed.

4. Yugoslavia's right to engage in the transactions covered by this arrangement 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 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 4, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Yugoslavia and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Purchases under this arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Yugoslavia, the Fund agrees to provide them at the time of the purchase.

6. Yugoslavia shall pay a charge for this arrangement in accordance with the decisions of the Fund.

7. a. Yugoslavia shall repurchase the amount of its currency that results from a purchase under this arrangement, and is subject to charges under Article V, Section 8 (b), in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Yugoslavia's balance of payments and reserve position improves.

b. Any reductions in Yugoslavia's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

8. During the period of the arrangement, Yugoslavia shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Yugoslavia or of representatives of Yugoslavia to the Fund. Yugoslavia shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Yugoslavia in achieving the objectives and policies set forth in the attached letter.

9. In accordance with paragraph 28 of the annexed letter, Yugoslavia will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government, or whenever the Managing Director requests consultation, because any of the criteria under paragraph 3 above have not been observed, or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Yugoslavia has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Yugoslavia's balance of payments policies.

Belgrade, Yugoslavia

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January 15, 1981

Dear Mr. de Larosière:

1. As you are aware, the Yugoslav economy has been facing a difficult period in recent years for a number of reasons, both internal and external. Among the latter have been the sustained and large increase in prices of petroleum and other imported raw materials and the low growth of world demand. Internally, our desire to increase employment opportunities led to excess demand in the economy. The result was an increase in the rate of inflation and the emergence of an unsustainable deficit in the current account of the balance of payments, which reached US\$3.7 billion in 1979, equal to about 6.0 per cent of gross social product.
2. In 1980 a strong stabilization program was introduced with a major aim of reducing substantially the current account deficit and the rate of inflation. The program included a comprehensive set of domestic and external economic policies. In our letter of May 16, 1980, we described the program in detail and in support of it we requested on behalf of the Federal Executive Council of the Socialist Federal Republic of Yugoslavia a stand-by arrangement in an amount equivalent to SDR 339.325 million for the period until December 31, 1981. On June 6, 1980 the Fund agreed to the requested stand-by arrangement.
3. As described below, we believe that considerable success has already been achieved, especially as regards the elimination of excess domestic demand and the improvement in the balance of payments. However, it was realized at the time the stand-by arrangement was requested that a full solution to our economic problems would take several years to achieve. Also, developments in the world economy, including further significant increases in prices of a number of important raw materials and continued weakness in demand in many foreign markets important to us, have not been favorable. Finally, the adjustment process in our economy will require structural changes in the pattern of production and investment to increase the supply of goods for export and import replacement. It will inevitably take several years for the results of our policies to become fully effective and, in this period, Yugoslavia would like to have the support of Fund resources. In these circumstances, the Government wishes to cancel the present stand-by arrangement with the Fund and requests a new stand-by arrangement in an amount equivalent to SDR 1,662 million for the period ending December 31, 1983 to support the economic program described below. With respect to the year 1981, the first year of the 1981-85 Five-Year Plan, policies are described in considerable detail. For the two subsequent years, the major outlines of policies are given. We emphasize that when the detailed annual targets and policies for these years are determined, they will be fully consistent with the aims of the stabilization effort, namely to bring about a situation in which the economy can achieve satisfactory domestic growth, with greater price stability and a sustainable balance of payments.
4. As you are aware, we believe that one reason for the large external deficits of 1977-79 was excess domestic demand. The program for 1980, therefore, provided for a sharp reduction in all components of domestic expenditure, but particularly investment, which had become excessive and in some instances inefficient. Initially, the target for the growth of real GSP was set at 5 per cent, compared with 7 per cent in 1979. During

the year, we decided that it would be necessary to reduce the growth rate even further so as to ensure that the external target of a current account deficit of around US\$2.0 billion was reached. Consequently the target for the growth in real GSP was reduced to 4.0 per cent and the increase is now expected to be 3.0-3.5 per cent. Total domestic demand is expected to increase in real terms by less than 2.0 per cent. Real private consumption in 1980 will rise by only 0.5 per cent, while real public sector expenditure will decline substantially. Real fixed investment is expected to decline by about 1.5 per cent. These trends in the domestic economy reduced import demand and increased export supplies with the result that the deficit on the current account of the balance of payments is expected to be of the order of US\$2.0 billion, equal to about 3.5 per cent of GSP. Overall, we believe the economy has adjusted well to the changed pattern of production and use of resources.

5. We consider that these results constitute a major achievement. An important contributing factor has been very considerable wage restraint, with real personal incomes per employee declining by about 7.0 per cent compared with 1979 thus helping restrain the growth of personal consumption. Similarly, expenditure by the public sector is estimated to have declined in real terms.

6. The area in which we have had least success is prices. Originally, we hoped that it would be possible to reduce the GSP deflator from 21 per cent in 1979 to 17 per cent in 1980. In the event, the rate of price increase has accelerated and retail prices in November 1980 were 37 per cent higher than in November 1979, and the GSP price deflator will be about 30 per cent in 1980. However, as explained in paragraph 17, there were special factors accounting for this acceleration.

7. As mentioned above, the deficit on the current account of the balance of payments was reduced substantially in 1980. Exports rose in dollar value terms by about 31 per cent and in volume by 10-11 per cent. In contrast, the value of imports rose by only 6 per cent and their volume fell by 11 per cent. The result is that the trade deficit declined by more than US\$1.2 billion in 1980 to about US\$6 billion. Net invisible receipts increased because of higher receipts from tourism and workers' remittances and despite a sharp rise in interest payments. On capital account we faced a number of difficulties in the first half of the year, some of them noneconomic, but in the second half we made determined efforts to obtain foreign financial credits in addition to the normal flow of trade-related credits. As a result, the net inflow of medium- and long-term capital reached about US\$1.7 billion. This, plus some net US\$0.3 billion in compensatory foreign borrowing by the commercial banks, permitted the gross convertible international reserves of the National Bank of Yugoslavia (with our 1,855 million fine ounces of gold valued at SDR 35 per fine ounce) to increase during 1980 by about US\$0.2 billion to reach about US\$1.5 billion at the end of the year. In addition, gross convertible foreign exchange holdings of the commercial banks rose by US\$0.4 billion to about US\$1.1 billion. We should point out, however, that the international reserves are still at an unsatisfactorily low level. At the end of 1978, those of the National Bank of Yugoslavia stood at US\$2.5 billion and since then the size of our external transactions has risen substantially. The official convertible international reserves are currently equal to about only one month of imports of goods and services from the convertible area.

8. We believe that the external improvement illustrates the strong effort that has been made to stabilize the economy. The elimination of excess internal demand released export supplies. Internally, Organizations of Associated Labor have acted individually, and jointly through our system of social compacts to become less import-intensive in their production. The decrease in the volume of investment also reduced demand for imported equipment. The depreciation of the exchange rate of the dinar, including the large depreciation in June 1980, improved the external competitiveness of the Yugoslav economy. It is noteworthy that our export improvement was achieved in a time when many of our foreign markets were expanding slowly.

9. The very large deficit of 1979 and the considerably smaller one of 1980 have increased our foreign indebtedness. As a result, the ratio of foreign debt service payments on medium- and long- debt to gross receipts from goods and services rose from 14.9 per cent in 1978 to around 18 per cent in 1980. If debt and receipts in convertible currencies only are considered, the increase is from 16.9 per cent to 20.4 per cent. However, the foreign debt situation remains manageable and we are determined to continue to reduce our borrowing requirements and reverse the increase in the debt service ratio.

10. We shall now describe the policies that Yugoslavia intends to follow in the next several years to continue the improvements achieved in 1980. They comprise both short-term policies of demand management and policies designed to change the structure of the economy, with special emphasis toward obtaining a pattern of output and demand that will permit a gradual return to higher growth rates without compromising the continued improvement in the balance of payments. These structural changes are particularly necessary since the economy cannot continue for any lengthy period with rates of growth as low as were required in 1980 if adequate increases in employment are to be attained. Necessarily, the process of structural change is gradual and it is for this reason that we are requesting Fund support over the next three years. The implementation of policies embodied in the 1981-85 Five-Year Plan will be the main vehicle for achieving the desired structural changes.

11. Before describing individual targets and policies, it may be useful to make some general comments on the Yugoslav system of planning and policy-making. It is basic to the system that targets and policies represent a consensus between all sectors, including the various levels of government and the sector of Organizations of Associated Labor. The implementation of agreed policies is frequently made through the mechanism of social compacts whereby those party to them accept the obligation to act individually in a way that will achieve joint aims. At times in the past, the working of the system may have seemed somewhat slow but we are convinced that the results achieved in 1980 are evidence that it is now working effectively and will continue to do so. Another important feature of our planning system is its flexibility. The Five-Year Plan establishes targets and policies. However, these are implemented through the Annual Plans and the latter must be pragmatic and able to react to the particular economic environment and needs that exist in each calendar year. Thus, the quantification of targets in an Annual Plan is done only in the final months of the preceding year. We should, however, emphasize that the stabilization of the economy is a fundamental basis of the 1981-85 Plan and the Annual Plans will include

policies in all areas that are appropriate for the achievement of external and internal stability. The elaboration of the 1981-85 Plan is in its final stages and we expect it to be completed by about March 1981. While the various targets mentioned below are preliminary and subject to change, we do not expect that any changes will be major. Final details of the 1981-85 Plan will be described to the Fund in the course of consultations later in 1981.

12. Within the 1981-85 Plan, the balance of payments will continue to have priority, since a further reduction in the current account deficit and net foreign borrowing is necessary. We have set a target for the cumulative deficit on current account for the five years of around US\$6 billion. Of necessity this figure must be regarded as somewhat tentative, since it is in current prices and the outcome will depend in part on developments in world prices. Our assumption is that the average annual increase in dollar prices in our foreign trade will be around 10 per cent. As explained below, we are aiming at a current account deficit of US\$1.8 billion in 1981 and we hope that it will be possible to reduce this to some US\$700-800 million by 1985.

13. The attainment of such an outcome will depend on developments in both the trade and services accounts. Our working assumption is that the volume of exports of goods will need to increase at an average rate of 8 per cent per annum and imports of goods at an average rate of around 3 per cent per annum. If these growth targets can be met, the coverage of import requirements by exports would rise from 51 per cent in 1979 and 57 per cent in 1980 to around 70 per cent in 1985. We expect that the value of receipts from services will increase at a somewhat slower rate than that of merchandise exports. On the basis of the above import growth and unless there are unanticipated adverse movements in the terms of trade, we believe it will be possible to realize an average annual rate of growth of real GSP of between 4.0-4.5 per cent over the five years 1981-85. As described below, for the first year, 1981, the planned growth rate will be below the average but we hope that in subsequent years there can be an acceleration so that by the end of the Plan period the rate will be around 5 per cent.

14. There are various preconditions that must be met if the above targets are to be reached. Obviously, the supply of saleable exports and import substitutes, especially in the energy field, must increase. This will necessitate a change in the structure of investment and production. Priority sectors have already been decided upon and in the 1981-85 Plan investment and production targets are being set accordingly. As a result, growth rates of production in the sectors of energy, basic metals and chemicals will increase by about 7 per cent per annum, compared with a rate of 5 per cent for industry as a whole. The planned increase in agricultural output is 4.5 per cent per annum, about twice the average rate of the last five years. Equally, the noneconomic sectors will receive proportionately less investment resources than in the past. The growth of domestic demand will be kept within limits that permit adequate domestic savings with only a modest addition required from foreign borrowing. Domestic policies in the monetary, fiscal, personal incomes, and prices fields will be tailored to keep domestic demand within the necessary limits. Exchange rate policy will be implemented to ensure that the Yugoslav economy is competitive and our external commercial policies will

emphasize the need to expand export sales. Finally, we remain committed to greater participation in the international division of labor. It is our intention to contain the growth rate of imports not by administrative restrictions, but through the increase of fully competitive domestic production.

15. Since the large increase in the cost of imported petroleum has been a major factor in the worsening of the balance of payments, particular attention is being given to the energy sector. Already, prices of all kinds of energy have been increased in line with the rise in the price of oil. Measures to cut the use of gasoline have been introduced, including bans on the use of automobiles on six days each month. In the 1981-85 Plan, emphasis is being given to investment in coal and hydroelectricity and oil exploration will continue. It is estimated that by 1985, the share of petroleum as a source of total energy will be 39 per cent, compared with 42.5 per cent in 1979.

16. The 1981 Annual Plan implements the medium-term objectives outlined above. We intend to continue with targets and policies similar to those successfully operated in 1980, although in some areas the restrictiveness of policies will be less severe than in the latter year. In real terms, GSP is planned to rise by about 3 per cent in 1981, which is not greatly different than the rate recorded in 1980, but considerably below the average rate of more than 7 per cent per annum in 1977-79. Real gross domestic expenditure should not change; a decline of 5 per cent in fixed investment would largely offset an increase of 2.5 per cent in real private consumption. The stability of domestic expenditure compared with the growth of GSP, combined with a further decline of 3 per cent in the volume of imports of goods and services, would permit an increase in the volume of exports of goods and services of 7 per cent. After allowing for price changes, this would imply a reduction in the current account of the balance of payments to US\$1.8 billion, or the equivalent of 2.5 per cent of GSP.

17. In 1981, we believe that it will be possible to reduce the rate of inflation. In 1980 price developments were the least satisfactory element in the economy, but although the increase of about 37 per cent was much greater than we would wish, there were several mitigating factors. First, the original target did not anticipate the need for the large depreciation of the exchange rate of the dinar in June 1980. Second, world prices of imports of petroleum and other raw materials increased by much more than we expected. Finally, during the course of the year, we decided it was essential to increase the prices of some important goods and services, including energy, to provide sufficient incentives for increased domestic supplies. We estimate that at a constant exchange rate and constant foreign prices, the rate of inflation would have been only half the actual figure and that perhaps about half of the remainder resulted from the above-mentioned structural price adjustments. In 1981, some of the above factors should not operate so adversely. In particular, we do not currently foresee the needs for a large depreciation of the exchange rate of the dinar or major structural price changes. As in 1980, there should not be excess domestic demand. The biggest problem will probably be in the area of import prices, especially of oil. Here, there are many uncertainties, so much so that the 1981 Economic Resolution does not include a specific price target, although we are aiming for a considerably slower rate of increase of prices than in 1980. For some operative purposes, however, a working hypothesis is necessary. A cautious assumption

of an increase of 20 per cent between the beginning and end of the year has been made. It is realized that a higher rate of inflation is possible and if this is so, it will have implications for other policies, in particular credit policy. However, we consider it is desirable to be cautious from the beginning and face the possible need for adjustment rather than the reverse. Similarly, although no specific price targets have been set for 1982-85, we are planning a deceleration in the rate of increase of prices during these years.

18. Incomes policy was particularly effective in 1980. The Economic Resolution of the Federation for that year established that the increase in total nominal personal income payments should be 5 percentage points less than the increase in nominal GSP. Within this reduction, the shortfall of nominal personal incomes within the noneconomic sector, e.g., in financial services and administration, was to be 7-9 percentage points. On the basis of the latest available data, nominal personal income per employee in 1980 will be about 21 per cent greater than in 1979, meaning that real personal income per employee will decline by about 7 per cent. Moreover, implicit payments to workers by way of collective consumption were limited to an increase of 14 per cent in the economic sector and only 10 per cent in the noneconomic sector. It is expected that these limits will not be exceeded, which means that in real terms this element of income will have declined even more sharply than direct personal income payments. Besides contributing to the sharp slowdown in the growth of personal consumption, these trends strengthened self-financing for investment of Organizations of Associated Labor. For 1981, a further reduction in real personal income would be inappropriate. Accordingly, the basic aim will be to permit a modest increase in real personal income payments per employee of 1.3-1.5 per cent, which is in line with the expected increase in productivity.

19. In our letter of May 16, 1980 we described our efforts to reduce the relative importance of public sector expenditures in general and borrowing by the Budget of the Federation from the National Bank of Yugoslavia in particular. In the 1980 Economic Resolution of the Federation, it was stated that public sector expenditure was not to increase by more than 16 per cent. With the much faster rate of inflation, nominal public sector expenditure rose by more than planned. However, although precise data are not yet available, we expect that there will be a significant decline in real expenditure since real personal income payments and investment in the public sector have decreased sharply. The outcome of the Budget of the Federation may be worse than originally planned because of the elimination of the 10 per cent import surcharge and a shift in the pattern of imports away from those subject to high rates of customs duties. Total revenue will therefore be less than planned, and the deficit may exceed the original forecast of Din 6 billion. However, any additional financing requirement will not come from the National Bank of Yugoslavia, but from the commercial banks within their existing credit ceilings.

20. For 1981 there will be a virtual prohibition on new investment projects in the public sector and total expenditure in the sector will be kept 4-5 percentage points below the increase in nominal GSP. For the Budget of the Federation, there will be an important increase in revenue since the Federation will receive 68 per cent of customs duties instead of 42 per cent in

1980. The remaining portion accrues to the Communities of Interest for Foreign Economic Relations of the republics and autonomous provinces. Principally because of this factor, the proposed deficit will be only Din 1.1 billion and borrowing from the National Bank of Yugoslavia will be reduced from Din 9.2 billion in 1980 to Din 4.6 billion, of which Din 3.0 billion will be used to amortize bonds held by the commercial banks. Guidelines in the draft 1981-85 Plan provide that public sector expenditure should continue to increase more slowly than nominal GSP and that reliance on borrowing from the National Bank of Yugoslavia should be eliminated.

21. Monetary policy has always been an important part of stabilization efforts since an excess supply of financial assets could weaken the implementation of other policies. For 1980, the original target for the increase in money supply between December 1979 and December 1980 was 22 per cent, which was the expected growth of nominal GSP. The actual increase in nominal GSP has been more than 30 per cent, but we have resisted requests to permit corresponding increases in the money supply and the final increase was only about 24 per cent. Domestic credit expansion, at 28 per cent, exceeded the original target of 22 per cent but this does not represent a failure of credit policy. Among the factors causing the acceleration was the fact that a significant part of foreign borrowing that was originally planned to be made directly by the Organizations of Associated Labor was finally made by the National Bank of Yugoslavia. The shortfall in planned foreign borrowing by the Organizations of Associated Labor was replaced by domestic credit from the banking system but this did not of itself raise money supply above planned levels. Also, the book value of domestic credits denominated in foreign exchange increased following the June 1980 depreciation. National Bank of Yugoslavia's lending to the Budget of the Federation did not exceed the original planned level of Din 9.2 billion.

22. For 1981 we intend to continue with a tight monetary policy. We start from the assumption that there is no excess liquidity in the economy at present. On this basis we consider that it would be prudent to have the money supply increase by several percentage points less than the rate of increase of nominal GSP. We are therefore planning an increase of 22 per cent in money supply, compared with a forecast increase of 24 per cent in nominal GSP. Consistent with this target, the expected decline in net foreign assets of the banking system and the increase in quasi-money assets, the increase in credit during 1981 has been set at Din 345 billion, or 22 per cent. Based on normal seasonal patterns and the fact that the rate of inflation is expected to decelerate during the course of 1981, the cumulative increase from December 31, 1980 in the net domestic assets of the banking system, which on September 30, 1980 totaled Din 1,448 billion, and which are estimated to have amounted to Din 1,538 billion on December 31, 1980 is not to exceed Din 96 billion on March 31, 1981, Din 179 billion on June 30, 1981, Din 259 billion on September 30, 1981, and Din 345 billion on December 31, 1981. As mentioned in paragraph 20 lending by the National Bank of Yugoslavia to the Budget of the Federation is to be limited in 1981 to a total of Din 4.6 billion. In line with seasonal requirements, all of this amount will be utilized by March 31, 1981. In setting the monetary targets we have made a conservative assumption regarding price increases. Should our assumptions substantially underestimate the increases that actually occur, we may be

obliged to re-examine our monetary targets if planned economic activity is seriously affected. However, we would emphasize that nothing will be done in the monetary field that would prejudice the attainment of the overall objectives of the stabilization program, especially in the external sector. Beyond the end of 1981 it is not possible to establish at this time quantitative targets for monetary expansion. However, as was the case in 1980 and as is planned for 1981, we intend to continue with firm monetary policies that will support the stabilization program. In particular, it is expected that the rate of increase of money supply will be less than the rate of increase of nominal GSP.

23. In the past, interest rates have played a relatively modest role in resource allocation in Yugoslavia although there have been selective differentiations to aid certain sectors and regions. Even before the sharp acceleration in the rate of inflation, some real interest rates were negative and none were high. It is now believed that a more active interest rate policy is desirable, especially since in the 1981-85 Plan much more emphasis is to be placed on directing investment into the most productive sectors. Accordingly, the banking system is currently preparing proposals for presentation to the Federal Executive Council of the Socialist Federal Republic of Yugoslavia that will be designed to increase the effectiveness of interest rates in resource allocation. The final form of the proposals is still to be decided and their implementation cannot take place until part way into 1981. However, it is expected that they will include increases in the average level of interest rates paid by banks and charged by them. It would be difficult at the current levels of inflation to have the large increases in interest rates needed to make them positive in real terms. Rather we would aim at obtaining positive real interest rates through a combination of raising nominal interest rates and reducing the rate of inflation. The measures that will be introduced in 1981 represent a first step in this process and it is our intention to continue to examine the system of interest rates in the light of experience over the program period.

24. As mentioned above, the target for the current account of the balance of payments in 1981 is a deficit of US\$1.8 billion, equal to about 2.5 per cent of GSP. The forecast assumes that the dollar value of exports will rise by 19 per cent (7 per cent in volume) and imports by 14 per cent (a decline of 3 per cent in volume). Under these assumptions, the trade deficit would remain at about US\$6.0 billion, while net invisible receipts are expected to rise by about US\$0.4 billion. On capital account, after allowing for gross receipts from trade-related credits, including those available under bilateral payments agreements, World Bank credits, the net outflow because of trade credit extended by Yugoslavia and debt repayments, there will be a deficit of about US\$1.8 billion to be financed by financial credits from various sources. The Yugoslav commercial banks are expected to obtain net about US\$400 million. The remainder will need to be obtained through net foreign borrowing by the National Bank of Yugoslavia and the requested use of Fund credit. Our aim is to maximize borrowing by the National Bank of Yugoslavia so that some short-term foreign debt can be repaid and so that part of purchases under the standby arrangement can be used to increase the gross official international reserves from their present low level. To this end, we have set targets for the change in net convertible foreign assets of the National Bank of Yugoslavia, excluding its medium- and long-term borrowing other than purchases from the

Fund, and less the increase in compensatory borrowing by the commercial banks. During 1981, the net decline in these convertible foreign assets will not exceed US\$750 million. Consistent with this target and allowing for the seasonal pattern in the balance of payments, targets have been established for a decline of no more than US\$150 million by March 31, 1981, US\$350 million by June 30, 1981, US\$550 million by September 30, 1981, and US\$750 million by December 31, 1981.

25. The current account deficit in 1980 necessitated further net foreign borrowing in convertible currencies. On September 30, 1980, the total of such debt outstanding was US\$16.0 billion, of which US\$13.7 billion had a maturity of more than one year. It is estimated that at the end of 1980 the corresponding data were about US\$16.4 billion, and about US\$14.1 billion, respectively. The ratio of debt service for medium- and long-term convertible foreign debt (excluding purchases from the Fund) to receipts in convertible currencies from exports of goods and services rose from 16.5 per cent in 1979 to 20.4 per cent in 1980. Further net borrowing will be needed in 1981, but to maintain a sound debt servicing position we intend to limit the increase in convertible debt with maturities of more than one year, including borrowing by the National Bank of Yugoslavia but excluding compensatory borrowing by the commercial banks and purchases from the Fund, to no more than US\$1.7 billion during 1981 (based on exchange rates current on December 31, 1980). Semiannual cumulative limits have been set as follows: no more than US\$1.0 billion on June 30, 1981 and US\$1.7 billion on December 31, 1981.

26. Detailed quantitative targets for the balance of payments for 1982 and 1983 cannot be established at this stage. However, we should reiterate that the Federal Executive Council of the Socialist Federal Republic of Yugoslavia will continue to give priority to further reductions in the current account deficit. Domestic and external policies will be formulated to this end.

27. The Federal Executive Council of the Socialist Federal Republic of Yugoslavia does not intend to introduce any multiple currency practices or introduce new or intensify existing restrictions on payments and transfers for current international transactions or enter into any bilateral payments arrangements with Fund members; furthermore, the Federal Executive Council of the Socialist Federal Republic of Yugoslavia does not intend to introduce new restrictions or intensify existing restrictions on imports for balance of payments reasons.

28. The Federal Executive Council of the Socialist Federal Republic of Yugoslavia believes that the policies set forth in this letter are adequate to achieve the objectives of its program but will take any measures that may become appropriate for this purpose. The Yugoslav authorities will consult with the Fund and reach understandings before, or shortly after, the beginning of the second and third years of the program with regard to the program relating to the second and third years of the stand-by arrangement. In

addition, the Federal Executive Council of the Socialist Federal Republic of Yugoslavia will consult with the Fund, in accordance with the Fund's policies on consultations on the adoption of any measures that may become appropriate.

Yours sincerely,

/s/

/s/

Ksente Bogoev
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Ing. Petar Kostic
Federal Secretary for Finance