

**FOR
AGENDA**

EBS/82/181

CONFIDENTIAL

October 7, 1982

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

Attached for consideration by the Executive Directors is a report reviewing developments under the stand-by arrangement for Yugoslavia during the first half of 1982. A staff appraisal appears on pages 12-14.

It is proposed that this subject be brought to the agenda for discussion on Friday, November 12, 1982.

Att: (1)

INTERNATIONAL MONETARY FUND

YUGOSLAVIA

Stand-By Arrangement: Review of Developments

Prepared by the European Department

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

Approved by L. A. Whittome and Subimal Mookerjee

October 6, 1982

I. Introduction

On January 30, 1981 the Fund approved a three-year stand-by arrangement for Yugoslavia for an amount equivalent to SDR 1,662 million or 400 per cent of quota, to be financed from the Fund's ordinary resources (SDR 304.2 million) and from the supplementary financing facility (SDR 1,357.8). A Fund mission comprising Messrs. Dakolias, Manison, Kronenberg (all EUR), Keller, (ETR) and, as secretary, Miss McKay (EXR) was in Belgrade from August 16 to 27, 1982 to review developments under the stand-by arrangement during the first half of 1982. In addition to discussions with senior officials, meetings were held with Mr. Srebcić, Vice President of the Federal Executive Council, Mr. Florjancić, Federal Secretary for Finance, and Mr. Makić, Governor of the National Bank of Yugoslavia. This paper, describing the mission's findings, is being circulated as a basis for discussion by Executive Directors.

The performance criteria under the second year of the stand-by arrangement were met on March 31 and June 30, 1982. These specified ceilings on domestic credit extended by the banking system, on National Bank credit to the budget of the Federation, and on outstanding convertible currency debt (Table 2). Yugoslavia to date has made seven purchases totaling SDR 969.5 million under the stand-by arrangement. Fund holdings of Yugoslav dinars as of August 31, 1982 were equivalent to 453.5 per cent of quota. Yugoslavia's use of Fund resources, the proposed phasing of the remaining purchases under the stand-by, and the prospective developments of Fund holdings of Yugoslav dinars until the end of the stand-by are set out in Appendix I and the attached tables.

II. Economic Performance

1. External sector

The program for 1982 sought to reduce the deficit in the balance of payments on current account with the convertible currency area further to about US\$500 million or 0.8 per cent of the planned gross social product (GSP). A rapid expansion of exports to the convertible currency area was given priority; to achieve it an active exchange rate policy was to be pursued, supported by restraints on domestic demand and costs. Total exports were expected to grow by about 8.5 per cent in volume with exports to the convertible currency area alone rising by 12 per cent. Only a modest increase in import volume was planned. The authorities expected to be able to hold down new borrowing abroad considerably. Net medium- and long-term financial drawings, excluding purchases from the Fund, were planned to total about US\$950 million, most of it on account of the National Bank of Yugoslavia. Short-term liabilities of the commercial banks were expected to decline by US\$500 million.

Performance has not been as good as had been hoped. In the first half of 1982 the current account deficit with the convertible currency area alone was still as high as US\$1.5 billion compared with US\$2.1 billion in the first half of 1981 (Table 3). ^{1/} The current account with the nonconvertible currency area was in surplus to the extent of US\$600 million, part of which was used to pay off indebtedness to the U.S.S.R. relating to oil imports. The combined current account deficit declined to US\$0.9 billion from US\$1.9 billion between the two first half years (Table 4). The volume of total exports is estimated to have increased by 7 per cent over the same period with exports to the convertible currency area alone growing by about 8 per cent.

Deliberate efforts to redirect trade continue. Taking a slightly longer period of comparison, namely, from the first of the year to mid-August, real exports to the convertible currency area increased by 9 per cent between 1981 and 1982, with exports to the socialist countries paid for in convertible currency declining by 20 per cent; exports paid for in nonconvertible currencies increased by only 1.6 per cent. ^{2/} Imports from the convertible currency area declined by 10 per cent and those from the nonconvertible currency area by 13 per cent between the

^{1/} Errors and omissions relate mainly to flows of goods and services with respect to the convertible currency area. The current account deficits adjusted to account for this factor were US\$817 million in the first half of 1982 and US\$1,134 million in the corresponding period of 1981.

^{2/} No figures for export and import prices in Yugoslavia are available for the period January to August 1982. The staff has therefore derived volume figures by assuming no change in import and export prices in U.S. terms compared with the same period of 1981.

same two periods. Unfortunately, this decline resulted in shortages of some imported inputs, particularly of energy products, which in turn held back industrial production and raised prices.

Net receipts from invisibles were expected to increase in the first half of 1982 but instead showed a decline as a consequence of a shortfall in tourist receipts and higher interest payments. Workers' remittances continued to increase but withdrawals of foreign exchange deposits were higher than expected.

The authorities take the view that exchange rate policy played an appropriately active role in the first half of 1982 even though the ambitious targets had been set for merchandise and invisible exports. In the first half of 1982 the nominal effective exchange rate for the dinar was depreciated in line with differential developments between Yugoslav prices and costs and those of Yugoslavia's main trading partners (Chart I). As a result, no discernible gain in real external price competitiveness was recorded.

External reserves came under pressure in the seven months to end-July 1982. The reserves of the National Bank declined by US\$893 million or by more than one half, and those of the commercial banks by US\$216 million (Table 5). Although these developments to some extent reflect seasonal factors in the current account of the balance of payments in the first part of the year, they were exacerbated by difficulties in securing sufficient medium- and long-term credits and by a large reduction in short-term credits from foreign commercial banks. The turnaround in the capital account with the convertible currency area in the first half of 1982 compared with the same period of 1981 was of the order of US\$1.1 billion. While a partial reversal was planned, its eventual magnitude and timing had certainly not been anticipated.

The squeeze on short-term credits was to a considerable extent concentrated on a major commercial bank in Zagreb which is now being assisted by the National Bank of Yugoslavia and by other commercial banks in meeting its obligations. Disbursements of suppliers' credits appear to have continued at a normal rate, but the inflow of medium- and long-term financial credits has fallen far short of expectations. The Yugoslav banks, including the National Bank, have not had access to the American capital markets. Financial credits from other sources amounted to US\$320 million in the first half of 1982.

2. The domestic economy

a. Demand and supply

The economic program for 1982 was intended to restrain domestic demand so as to release additional resources for the external sector. Real domestic demand was to be reduced by 2 per cent. There was to be a 6 per cent decline in gross fixed capital formation while real consumption expenditures were to be held at approximately the same level as in 1981 (Table 6). Real GDP was nevertheless projected to rise by 2.5 per cent as a result of a substantial increase in net exports of goods and services.

However, in the first half of 1982 domestic demand was more expansionary than had been envisaged, falling only marginally compared with the same period a year earlier. Real personal consumption is estimated to have risen by 2.5 per cent between the same two half years. Substantial increases in nominal personal incomes in the last part of 1981 and in the initial months of 1982 caused retail sales to be particularly buoyant. In recent months there has been a moderation in the growth of retail sales as real personal incomes declined. Public consumption expenditures ^{1/} also rose at a rate considerably faster than originally planned, associated with a larger-than-anticipated rise in revenue collections. In the first half of 1982 real fixed investment fell by 3 per cent, only half the projected rate of decline. While there was a sharp fall in bank-financed enterprise investments, capital outlays by public sector entities were higher than planned.

Industrial production meanwhile rose at a slower rate than planned. In the first half of 1982 it was only 1.2 per cent higher than a year earlier compared with the 2.5 per cent planned for the year as a whole. Industrial production has weakened in recent months, with its level in July falling 2.3 per cent below that of a year earlier. Shortages of imported inputs, especially of raw materials and energy supplies, were a major factor contributing to shortfalls in industrial output. Industrial production is expected to remain relatively depressed during the rest of the year. Agricultural production, on the other hand, is expected to rise appreciably due to favorable harvests of cereal crops. The growth of real GSP has now been revised downward for 1982 from 2.5 per cent to 1 per cent.

b. Prices and incomes

The program for 1982 assumed that the increase in the retail price index would be reduced to 15 per cent for the 12-month period to December 1982. The 12-monthly rate of increase in the retail price index had already fallen from a peak of 52 per cent in May 1981 to 39 per cent by December 1981 and further to 27 per cent in April 1982. During the first four months of 1982 the retail price index rose by 7.4 per cent (Table 7), with prices of industrial products increasing by 6.5 per cent and those of foodstuffs by 16.6 per cent as a result mainly of the elimination of some subsidies and seasonal factors. However, in the subsequent three months the retail price index rose again by 11 per cent, bringing the 12-monthly rate of increase back to 31 per cent by July 1982 (Table 8). Other domestic prices have shown similar developments over the last 15 months (Chart II).

Large increases in administered prices in agriculture and energy were thought necessary to improve the structure of relative prices.

^{1/} The national accounts figures according to Yugoslav methodology only include the material costs of general and collective consumption. In particular, they exclude personnel income payments by public sector entities which in nominal terms rose at a rapid rate in the first half of 1982.

Prices of agricultural commodities were increased sharply in the May-July period, by some 25 to 35 per cent, so as to encourage agricultural production and raise incomes. There were sharp increases also in prices of energy products (especially gasoline) in July 1982 to improve the financial position of the oil refining industry and to encourage energy conservation.

However, prices of industrial goods also rose rapidly--the industrial producer price index increasing by 8 per cent in the three months to July 1982--as enterprises took the opportunity to pass into higher prices increased costs associated with rises in capital depreciation and interest charges, the effects of the dinar depreciation, and rises in nominal wages. The effective increase in May in the norms for profit margins, expectations that price controls would be intensified, increasing supply shortages, and the monopolistic position of many enterprises in domestic markets also helped to increase prices despite the weakening of domestic demand.

For most of 1980 and 1981, the growth of net personal incomes was kept well below that of net enterprise incomes and real wages fell by an estimated 15 per cent over the two-year period to September 1981 (Chart III). However, in the last quarter of 1981 nominal personal incomes rose sharply just as domestic price increases were moderating (Table 9). Real personal incomes were maintained at relatively high levels in the opening months of 1982 until a new burst of price inflation from May onward reduced them once more. While the growth of nominal personal incomes tended to moderate during the first part of 1982 (Table 9), the authorities are of the view that their price-incomes policies have not been successfully implemented. Within the enterprise sector there has been diverse behavior. Some 60 per cent of enterprises increased personal incomes in line with their net incomes; 20 per cent have granted increases above their net incomes; and of the remaining 20 per cent which were incurring financial losses, many granted increases by amounts which exceeded the national average.

III. Economic Policies

1. Prices and incomes

To break the momentum of the rapid price increases, the authorities imposed a "price freeze" for a period of six months from end-July 1982. During this period there will, however, be selective price increases, including seasonal rises in electricity charges and higher prices for certain commodities with a large import content. The authorities expect that the retail price index should rise about 5 per cent during the last five months of 1982. The 12-monthly rate of increase in the index would then fall back to 25 per cent by December 1982.

The authorities have also taken steps to restrain the growth of personal incomes during the remainder of 1982. Where the growth of personal incomes exceeded that of net enterprise incomes in the first half of 1982, personal incomes are to be severely restrained and, in some cases, rolled back. Public sector entities are required to comply with their originally budgeted expenditure estimates for the year as a whole thus forcing considerable restraint also on their personal income payments for the remainder of the year.

The authorities agree fully with the view that high rates of price increase are having damaging economic effects and that the present system of price formation and incomes determination results in a price-wage spiral. The current policy of increasing personal incomes in line with net enterprise incomes is open-ended if enterprises are able to autonomously raise prices and thereby increase wages. In addition, the official policy of increasing enterprise profits and hence self-financed investment puts pressure on enterprises to increase prices in excess of costs, particularly in a stagnant economy, but leads, thereafter, to strong pressures to increase wages. This spiral is exacerbated by the public sector budgeting process which builds in a high rate of expected inflation. For 1983, the authorities are now drafting legislation that would require enterprises to fix wages for the early months of that year on the assumption that they will not be able to increase prices. Similar policies are to be implemented by the Federal, republican, and provincial Governments in 1983, where expenditures and revenues in nominal terms are to be limited to rates of increase of about 7 per cent.

2. Credit policy

The program for 1982 called for a continuation of restrictive credit policies with the growth of bank credit and of the narrow money stock to be kept below that of the nominal gross social product (GSP). It had been assumed that the scope for further substantial increases in the income velocity of money, such as had occurred in 1981, was very limited. In particular, the ability of enterprises to expand interfirm credits seemed to have been substantially reduced as their liquidity positions had tightened. Accordingly, the planned deceleration in the expansion of bank credit to an annual rate of 16.6 per cent was expected to be consistent with a reduction in price inflation and an improvement in the balance of payments.

Quarterly ceilings for the stock of domestic credit were set as performance criteria for the second year of the stand-by arrangement (Table 2). A subceiling of no additional credit from the National Bank to the budget of the Federation during 1982 was also established as a performance criterion. The performance criteria for credit were met during the first half of 1982. Bank credit as defined in the stand-by arrangement increased by 7.7 per cent in the six months to June 30, 1982 and by 12.1 per cent in the period to August (Table 11), with credit to the Federation showing some small decline. The stock of domestic credit displayed some monthly volatility during the eight months of 1982; the respective end-of-quarter credit ceilings were exceeded both at

end-February and end-May, but credit reverted to ceiling levels at the end of each quarter. This same pattern has been repeated in the current quarter in which the domestic credit figure for August 1982 was slightly above the ceiling for September 1982.

Credit policies are contributing to efforts to reduce real fixed investment. In the first half of 1982 the growth of long-term bank credit was held to under 6 per cent and the share of bank credit in financing investment was reduced to 39 per cent compared with 45 per cent one year earlier. For the second half of 1982 the expansion in investment credits is to be limited to 1 per cent per quarter. In addition, to assist in restraining consumer spending, the authorities as of July 30, 1982, raised the downpayments required for financing consumer durables purchases from 60 per cent to 80 per cent, and eliminated its use for certain purposes.

Nominal GSP is estimated to have risen by 15 per cent during the first six months of 1982, which was higher than the planned rate of increase for this period and higher than actual increases in narrow money and quasi-money of 5.5 per cent and 12.2 per cent, respectively. The further considerable increase in the income velocity of circulation of narrow money and the higher-than-anticipated increase in nominal incomes and demand was attributable in large part to the continued rise in interenterprise credits and increasing use of foreign exchange in domestic transactions. The greater liquidity strains being placed on the enterprise sector have not only led to voluntary increases in inter-firm credits but they have also led to a rise in unpaid bills that has been associated with an increasing lack of financial discipline in the enterprise sector.

The authorities are of the view that a tighter bank credit policy could not have prevented in the short run the faster-than-planned rise in nominal demand, especially of personal consumption, and the deterioration in the net foreign exchange position of the banking system in the first half of 1982. Indeed, they considered that credit policy was very tight and noted that banks were experiencing liquidity strains. Furthermore, they attributed the large rise in prices to a significant extent to administered adjustments and the deterioration in the foreign capital account to a large degree to exogenous factors. For the remainder of 1982 the authorities are determined to keep bank credit within the established ceilings and, if conditions warrant, they will aim to limit the stock of credit to below the level of the originally planned ceiling for December 1982.

The first steps toward implementation of an active interest rate policy were taken in the early months of 1982. The National Bank of Yugoslavia raised the discount rate from 6 per cent to 12 per cent and the rates applied to selective credits (primarily for exports and agriculture) from a range of 1-6 per cent to a range of 4-8 per cent

(Table 12). The commercial banks also raised interest rates on time deposits from a range of 9-10 per cent for households to a range of 11-15 per cent. Interest rates on selective credits extended on the basis of the commercial banks' own resources were increased from 2-7 per cent to 8-12 per cent, and other lending rates were raised to as much as 18 per cent. However, the recent sharp rises in domestic prices and the prevailing high inflationary expectations have necessitated further increases in interest rates. Thus, the Executive Board of the Yugoslav Bankers' Association has recommended that rates on household time deposits be raised from a range of 11 to 15 per cent to a range of 13 per cent to 20 per cent effective October 1, 1982. Interest rates on foreign exchange deposits are to be increased from a maximum of 10 per cent to 12.5 per cent. ^{1/}

Consistent with these proposed changes, the National Bank of Yugoslavia is to raise its discount rate from 12 per cent to 14 per cent and the rates on selective credits by at least 1 percentage point. In view of the expected deceleration in the rate of inflation, the authorities considered these changes to represent significant progress toward the goal of achieving real positive interest rates.

3. Fiscal policy

The aim of fiscal policy has been to reduce the relative size of the public sector and the deficit of the Federation, and to eliminate recourse by the Federal Government to credit extended by the National Bank of Yugoslavia. Public sector bodies other than the Federal Government are required in principle to balance their budgets. These fiscal policy objectives were achieved in 1980 and 1981; public sector expenditures as a proportion of GSP fell from 40 per cent in 1979 to 35 per cent in

^{1/} It may be useful to summarize the position as regards foreign exchange deposits to provide a yardstick against which to judge their present importance. During the 1970s and in the early 1980s there was a substantial rise in foreign exchange deposits held by Yugoslav nationals with Yugoslav banks. These deposits accounted for 30 per cent of the stock of money and quasi-money at the end of June 1982, about two thirds of which were held by the household sector (Table 13). The rapid growth of foreign exchange deposits can be ascribed in part to the attractive return derived from holding such deposits. To attract remittances of foreign exchange from Yugoslav workers employed abroad, interest rates range from 7.5 per cent to 10.0 per cent according to maturity. More recently, holders of foreign exchange accounts have been given additional benefits insofar as they are allowed exemptions from domestic sales taxes and import duties on the purchase of many items, including consumer durables, when financed from these accounts. Holders are also given preferential access to domestic credit. Excluding valuation adjustments, foreign exchange deposits rose by an estimated 3.5 per cent during the first half of 1982 to reach Din 523 billion, equivalent to more than US\$10 billion. At present, approximately two thirds of outstanding foreign exchange deposits are of one year's maturity or less.

1981. In 1981 the public sector as a whole registered a small surplus, equivalent to 0.7 per cent of GSP, and so did the budget of the Federation for the first time in many years.

Fiscal policies prepared for 1982 sought to contribute to the reduction of real domestic demand. The growth rate of consumption expenditures was budgeted at some 17 per cent, somewhat below the target growth of nominal GSP. The budget of the Federation was to be Din 2.4 billion in surplus; expenditures were budgeted to rise by 24 per cent and revenues by 26 per cent, with no provision for any new borrowing from the National Bank of Yugoslavia (Table 14).

In the first half of 1982 the public sector is estimated again to have generated a small surplus while the budget of the Federation recorded a small seasonal deficit. Federal Government expenditures and revenues rose during the period at rates similar to those planned. In line with normal seasonal requirements, the Federal Government recorded a deficit of Din 2.3 billion compared with a deficit of Din 3.0 billion in the same period of 1981, which was financed by a drawdown of reserves. Revenues of the republican and provincial governments rose at an estimated rate of 14 per cent in the first half of 1982 compared with the same period of 1981. However, revenues of communities of interest providing collective consumption (education, health services, etc.) increased by 29 per cent, a rate considerably higher than planned. Expenditures of these communities, including personal income payments, were adjusted in line with the higher revenue collections.

Fiscal policies were tightened in the summer months of 1982. To make a further contribution to the stabilization effort and to compensate for possible shortfalls in revenues mainly as a result of lower imports, the expenditures of the Federal Government have been cut back by 7.7 per cent compared with the original budget estimates. The reductions are to be made across-the-board. Substantial reductions are to be effected in the growth of revenues and expenditures of other public sector entities during the remainder of 1982. In this connection two laws were passed in July 1982. Firstly, the Social Accounting Office was authorized to place excess revenues collected by public sector bodies providing general consumption into a special blocked account. Secondly, those self-managed communities of interest providing collective consumption services which recorded surpluses were required to return 15 per cent of their revenue collections over the period August 1 to December 31, 1982 to enterprises. Alternatively, contribution rates for collective consumption levied on enterprises could be reduced to eliminate the surpluses.

In shaping their policies for 1983 the authorities aim at achieving considerable reductions in the rate of growth of budgeted public expenditures. Very preliminary plans suggest that Federal Government expenditures may be limited to 7 per cent above the revised budgeted level for 1982. The republican and provincial government authorities have indicated that they plan similar expenditure restraints.

4. Exchange rate policy

Adjustments in the exchange rate during the first eight months of 1982 led to a depreciation in the index of the nominal effective exchange rate of about 13 per cent. This was sufficient to offset relative cost and price increases. Nominal wages in the economic sector increased by 9 per cent in the first six months of 1982, with probably some small increases in July and August. Large fluctuations in the exchange rates of the major international currencies have created difficulties for the management of foreign exchange policy. The depreciation of the dinar with respect to the U.S. dollar was 20.5 per cent in the first eight months of 1982, while that with respect to the deutsche mark was 11.2 per cent. This had asymmetrical effects on exports and imports as the bulk of exports is intended for European markets, while most imports are invoiced in terms of U.S. dollars.

For the remainder of the year the authorities intend to continue their policy of adjusting the exchange rate to offset fully the differential between increases in Yugoslav costs and prices and those in trading partner countries. This exchange rate policy in combination with the planned reduction in domestic demand is geared toward the promotion of a rapid growth in exports to the convertible currency area. The authorities, supported by the representatives of the Chamber of the Economy, argued that their active exchange rate policy has stimulated exports, especially to OECD countries, and resulted in some expansion of the export base. They recognized that the transformation of the industrial sector from domestic to export-oriented production is a lengthy and difficult process, but argued that this process had already begun and was being facilitated by the active exchange rate policy. However, the authorities were of the view that this should not be understood by enterprises as implying that any increases in costs would be covered by exchange rate changes. In this respect, they viewed their exchange rate policy as requiring disciplined behavior by enterprises in their wage and pricing policies. Such discipline is absolutely necessary in order to avoid large exchange rate depreciations which may have undesirable effects on domestic prices and the distribution of income.

In view of the difficult foreign exchange situation, a new foreign exchange law was put into effect in May 1982 in order to quicken the repatriation of foreign exchange export receipts and to increase the supply of foreign exchange available to the National Bank of Yugoslavia. The maximum period for the retention of export proceeds was reduced from 90 to 60 days, while exporters were required to sell a certain percentage of their foreign exchange receipts to the National Bank to contribute toward the financing of foreign debt service payments and priority imports. The foreign borrowing by commercial banks was limited and banks were not permitted to transact in foreign exchange at any rate other than the official exchange rate.

IV. Economic Prospects

To correct for past excesses, the authorities are taking new measures to restrict domestic demand. Their target is to reduce real domestic demand in the second half of 1982 by more than 3 per cent compared with the corresponding period a year earlier, mainly by a reduction in real personal consumption (Table 6). Tighter incomes policies and restrictions on consumer credit will constitute the main instruments for achieving this result. However, the planned reduction in real consumption may prove difficult to implement as it requires a further decline in real wages in the industrial sector when they have already been reduced by the recent substantial increases in prices, especially of food prices (nearly 30 per cent during the first seven months of 1982); at the prevailing level of incomes, outlays on food comprise about 50 per cent of the consumer's expenditure basket. The authorities, although recognizing these difficulties, see no alternative to a further reduction in real wages, given the seriousness of the balance of payments situation. Continuous wage restraint would release resources needed for improvement in the balance of payments and would maintain the improved position of the agricultural sector.

In July measures to restrict investment further were taken. These included limiting increases in long-term credits for financing investment to 1 per cent per quarter; eliminating bank credit for financing project cost overruns and short-term credits for financing investment; and severe curtailment of investments by public sector entities.

For the full year 1982 real domestic demand is still projected to fall by 2 per cent. The authorities intend to continue to restrain domestic demand over the remainder of the period of the Medium-Term Plan (1981-85). The Plan envisages that domestic demand, especially consumption and investment in nonpriority sectors, will be severely restricted over the next three years during which the growth of output is planned to be supported by the expansion of exports. The annual growth rate of real GSP over the plan period has been revised downward to 2.5 per cent compared with the original 4.5 per cent.

Developments in the balance of payments to the end of 1982 will depend critically on confidence factors in the policy actions already taken and those yet to be taken. The authorities are expecting to mobilize medium-term financial credit from European banks amounting to US\$200 million and, in September, they were finalizing negotiations for a syndicated loan from U.S. and Japanese banks for US\$200 million. They plan to reduce short-term debt further. At the same time they expect a significant turnaround of the current account position. The volume of exports to the convertible currency area is expected to show a large increase in the second half of the year, especially for agricultural products, while that to the nonconvertible currency area may show a further decline. Imports from the convertible currency area are to decline further, both in relation to the first half of the year and also relative to the same period of the previous year. Imports from the

nonconvertible currency area, especially raw materials, are planned to increase sharply, but this may prove difficult to achieve over a short period of time.

Receipts from tourism may be lower than expected, and the turnaround in net receipts from services now planned will depend critically on the rate of withdrawal of foreign exchange deposits, and the extent to which the recent reduction in interest rates in international markets will be sustained for the remainder of 1982.

Although the authorities project a substantial reversal in the second half of 1982 of the earlier losses of external reserves, it is more likely that the level of gross official reserves reached at the end of the year will not be much higher than that prevailing at the end of June, that is, US\$1.8 billion; external reserves of commercial banks were approximately the same amount at end-July. Reserves at the end of 1982 could thus be very low in relation to the amount needed to finance the seasonally large current account deficit in the first half of 1983. The scope for further restraint on imports is quite limited, in view of the substantial reduction in import volume over the last two years.

Outstanding external medium- and long-term convertible debt (excluding that to the IMF) amounted to US\$15.6 billion at the end of 1981 (Table 15) and was estimated to have declined marginally to US\$15.4 billion by August 1982. It is expected to decline further during the remainder of 1982 and in 1983. The service payments on debt which are estimated to have amounted to US\$3.6 billion in 1981 are expected to rise to US\$4.4 billion in 1982, amounts that correspond to 23.1 per cent and 25.6 per cent, respectively, of exports of goods and services (Table 16). The amount of external debt servicing is projected to show a further increase in 1983 and to decline thereafter. Such developments will, however, depend largely on the evolution of interest rates. Short-term debt at the end of 1981 amounted to US\$2.3 billion but has declined rapidly during 1982 and at the end of July totaled US\$1.9 billion.

V. Staff Appraisal

The Yugoslav external current account is subject to marked seasonal variations and with the current account being significantly stronger in the second half of the calendar year. It is therefore necessary to contrast comparable half years. On this basis it was an achievement that the deficit on the current account in convertible currencies was reduced by approximately US\$500 million to a level of \$1,500 million or 1.5 per cent of GSP between the first half of 1981 and the first half of 1982. However, recent developments throw doubt on the ability to reduce the current account deficit with the convertible currency area for the year as a whole to US\$500 million as against the US\$1,820 million recorded in 1981.

More importantly the improvement in the first half of 1982 in the current account was in any case more than offset by a continued deterioration in the capital account as a result both of difficulties in raising new loans and of the reduction of short-term credits. As a result, the external position had become very difficult by the middle of 1982 with gross official reserves at US\$850 million, equivalent to no more than three weeks of imports, and having fallen by approximately one half in the first six months of the year. The somewhat disappointing performance of exports together with lower-than-expected receipts from tourism and net workers' remittances brings the appropriateness of the exchange rate into question. In the staff's view it is important that this matter be re-examined.

Against the background of severe strain in the overall balance of payments, it was disappointing that domestic demand in the first half of 1982 was higher than had been anticipated or than was compatible with a better evolution of the overall balance of payments. The most marked weakness lay in the field of personal consumption. Comparisons are made difficult by the uneven pattern of the last 18 months but personal consumption rose by some 2 1/2 per cent between the first half of 1981 and the first half of 1982. This seems to be directly attributable to the sharp rise in real personal incomes which occurred during the final part of 1981 and which was maintained in the early months of 1982. In the staff's opinion it is a matter for regret that the restraints on enterprises in raising prices to increase profitability and to pay higher wages did not prove adequate to produce the desired outturn.

The sharper than foreseen rise in domestic demand was accompanied by a resurgence of price pressures after April. The authorities have sought to buy time by imposing a six-month price freeze to take effect from end-July 1982. It is of importance that this opportunity be taken to break the practice by which enterprises raise prices and wages without undue difficulty. The authorities are now preparing legislation that would require enterprises to set wages on the assumption of no increase in prices. However, the wage/price spiral has long presented peculiar difficulties to the authorities, and the staff very much hopes that on this occasion fully adequate measures will be taken to restrain the increase in personal incomes.

The much stronger-than-expected development of nominal GDP at a time when the credit ceilings continued to be observed raises a separate set of questions. It appears that the extent of the interenterprise credit market, including the accumulation of unpaid bills, has again been underestimated both by the Yugoslav authorities and by the staff. It seems also that insufficient allowance has been made for the effect of transactions financed through domestic holdings of foreign exchange. Both these developments show up ex post as an increase in income velocity. This is not the first time that income velocity has ex ante been underestimated. The staff believes that, given the uncertainties, the most effective way to provide a more effective surveillance of development in the future is to arrange that when the performance clauses are established for 1983 they should be buttressed by a series of quarterly reviews which would be addressed to the most recent economic developments.

As regards the balance of payments, the more rapid-than-expected increase in inflation, without a commensurate increase in interest rates, seems to have contributed to a lack of domestic confidence which has shown itself particularly in the movements of net remittances. It is well possible that a series of changes in the system of administrative controls has also not been helpful in this respect. These same concerns have been shared by foreign observers and in conjunction with the general unease about the balance of payments situation in East European countries and the particular difficulties of one major Yugoslav commercial bank have led to a sharp deterioration in the capital account and especially in the short-term capital account.

The second half of the calendar year customarily shows a significantly stronger outturn in the current account than the first half. However, the recent trend on the capital account, if continued, could considerably, or even wholly, offset the extent to which this improvement will strengthen the balance of payments for 1982 as a whole. This leads to the possibility that by the end of 1982 the overall position may be but little stronger than at present despite the fact that a seasonally unfavorable six-month period will then need to be faced. More specifically, there is a threat that the first half of 1983 will commence with very low levels of reserves and stocks of imported goods and a minimal amount of financial credits in the pipeline.

In these circumstances, the staff most strongly supports the view of the authorities that further effective measures need urgently to be taken to control the development of incomes and in particular to restrain consumption. It is difficult to judge whether the measures to be introduced will prove to be fully adequate to achieve the Government's objectives. The staff therefore hopes that the Yugoslav authorities will be prepared to reinforce these measures at very short notice should this be required. At the same time these measures need in the opinion of the staff to be fully supported by monetary policy and, most importantly, given the external difficulties, by measures to ensure that the economy is fully competitive.

Yugoslavia: Fund Position

(As of August 31, 1982)

Quota:	SDR 415.5 million
Fund holdings of Yugoslav dinars:	SDR 1,884.4 million, or 453.5 per cent of quota, of which:
	CFF SDR 262.7 million, or 63.2 per cent of quota
	Oil facility SDR 3.8 million, or 0.9 per cent of quota
	SFF SDR 790.2 million, or 190.2 per cent of quota
SDR holdings:	SDR 16,843; (0 per cent of net cumulative allocation of SDR 155.2 million)
Direct distribution of profits from gold sales:	US\$32.9 million
Gold distribution:	177,144 fine ounces

Yugoslavia: IMF Position, June 1982 to December 1983 ^{1/}

(In millions of SDRs)

	Actual				Proposed			
	1982				1983			
	June	Sept.	Dec.	March	June	Sept.	Dec.	
Purchases	138.5	138.5	138.5	138.5	138.5	138.5	138.5	
Stand-by arrangement	138.5	138.5	138.5	138.5	138.5	138.5	138.5	
Ordinary resources	--	--	--	--	--	--	--	
Borrowed resources	138.5	138.5	138.5	138.5	138.5	138.5	138.5	
Repurchases								
Stand-by arrangement	--	--	--	--	1.5	15.2	27.4	
CFF and oil facility	4.4	12.9	17.3	17.6	38.1	34.6	34.6	
Net purchases	134.1	125.6	121.2	120.9	98.9	88.7	76.5	
Fund holdings								
Total (cumulative)	1,755.8	1,884.4 ^{2/}	2,002.6	2,123.5	2,222.4	2,311.1	2,387.6	
Holdings in per cent of quota	422.6	453.5 ^{2/}	482.0	511.1	534.9	556.2	574.6	
Excluding CFF and oil facility	(356.1)	(389.4)	(422.7)	(456.1)	(489.0)	(518.7)	(545.4)	

^{1/} Purchases and repurchases in three months to end-of-month.^{2/} August 1982.

Table 1. Yugoslavia: Selected Economic and Financial Indicators, 1980-82

	Actual 1980	Program 1981	Actual 1981	Original program 1982	Revised estimates 1982
<u>(Annual per cent changes, unless otherwise specified)</u>					
National incomes, prices, and costs					
GSP at constant prices	2.2	3.2	1.7	2.5	1.0
Final domestic demand	--	-0.3	-3.4	-2.1	-1.6
GSP deflator	28.0	20.0	40.0	20.0	28.0
Retail prices <u>1/</u>	39.0	20.0	39.0	15.0	25.0
Real wages in socialized sector	-7.5	1.5	-4.7	--	to fall
External sector (with convertible currency area)					
Export volume	11.0	7.0	10.0	12.0	11.0
Import volume	-10.0	-3.0	-5.0	1.0	-9.0
Terms of trade (deterioration -)	--	-5.0	1.0	-2.0	--
Nominal effective change rate (depreciation -) <u>2/</u>	-29.0	<u>3/</u>	-23.0	<u>3/</u>	<u>3/</u>
Real effective exchange rate (depreciation -) <u>2/</u>	-8.0	<u>3/</u>	1.0	<u>3/</u>	<u>3/</u>
Federal government					
Total revenue	17.0	50.0	51.0	26.0	15.0
Total expenditure	33.0	28.0	26.0	24.0	14.0
Money and credit					
Domestic bank credit	27.7	22.2	22.7	16.6 <u>4/</u>	16.6 <u>4/</u>
Central bank credit to Central Government	10.0	4.6	4.4	-- <u>3/</u>	--
Money (M1)	23.1	22.1	26.6	16.9	16.9
Velocity (GSP relative to M1)	6.0	--	11.0	2.0	6.0
Interest rate (annual rate, one year savings deposit)	9.0	...	9.0	<u>5/</u>	<u>6/</u>
<u>(In per cent of GSP)</u>					
Public sector expenditure	38.0	37.0	35.0	35.0	34.0
Federal government expenditure	8.3	8.7	7.4	7.3	6.6
Federal government deficit	1.3	0.1	-0.1	-0.1	-0.1
Gross fixed investment	35.0	32.0	31.0	28.0	29.0
Money (M1); end of period	30.0	30.0	27.0	25.0	23.0
Current account deficit	3.6	2.5	1.2	0.8	0.5
External convertible currency debt; end of period	23.0	...	25.0	...	26.0
<u>(Other ratios and data)</u>					
External debt service ratio on con- vertible currencies (in per cent of exports of goods and non-factor services)	20	19	23	23 <u>7/</u>	26 <u>7/</u>
Interest payments in convertible currencies (in per cent of exports of goods and non-factor services)	7	7	12	12	13
Gross official reserves (months of imports)	5	6	6	5	4
Overall balance of payments (in millions of U.S. dollars)	-172	-350	-435	-592	-890

Sources: Yugoslav authorities; and staff estimates

1/ Twelve-monthly change to end of period.

2/ End of year over end of preceeding year.

3/ The nominal exchange rate was to be adjusted in line with the differential between changes in Yugoslav prices and costs relative to those in trading partner countries.

4/ Stand-by definition.

5/ The interest rate on bank deposits of households of one year's maturity was increased to 11 per cent in March 1982. Interest rates were to be reviewed against the background of price developments and prospects in mid-1982.

6/ The interest rate on one-year saving deposits will be increased further to 13 per cent on October 1, 1982.

7/ The revised estimates for 1982 are not compatible with the original program estimates because of the different price assumptions used in the export base.

Table 2. Yugoslavia: Quantitative Performance Criteria
for Second Year of Stand-By Arrangement

	1982						
	March 31		June 30		Aug. 31	Sept. 30	Dec. 31
	Ceiling	Actual	Ceiling	Actual	Actual	Ceiling	Ceiling
Domestic credit extended by banking system: stock on date shown (in billions of dinars)	1,996	1,996	2,076	2,076	2,161 ^{1/}	2,159	2,247
Credit of the National Bank to the budget of the Federation: increase from December 31, 1981 to date shown (in billions of dinars)	0.0	0.0	0.0	-0.4	-0.4 ^{1/}	0.0	0.0
Convertible currency debt outstanding ^{2/} increase from December 31, 1981 to date shown (in billions of U.S. dollars)	0.7 ^{3/}	0.0	0.7 ^{3/}	0.2	...	...	0.5

Sources: Yugoslav authorities; and staff estimates.

^{1/} Preliminary figures.

^{2/} External debt with original maturities of more than one year. Includes borrowing by the National Bank of Yugoslavia and commercial banks. Excludes net purchases from the Fund.

^{3/} This is the maximum increase in the period up to June 30, 1982.

Table 3. Yugoslavia: Balance of Payments
(Convertible Currency Area), 1981-82

(In millions of U.S. dollars)

	<u>Projections revised</u> 1982	<u>First half</u> 1981 <u>1/</u>	<u>Second half</u>	<u>Estimate 2/ First half</u> 1982	<u>Projection Second half</u> 1982
A. Goods and services and unrequited transfers	-500	-2,056	235	-1,543	1,043
Exports, f.o.b.	6,380	2,529	3,191	2,746	3,634
Imports, c.i.f.	-9,590	-5,597	-5,003	-4,997	-4,593
Trade balance	-3,210	-3,068	-1,812	-2,251	-959
Services and unrequited transfers (net)	2,710	1,012	2,047	708	2,002
B. Long-term capital					
Long-term capital received (net) <u>2/</u>	-113	482	336	128	-241
Drawings	2,050	1,407	1,106	989	1,061
Repayments	2,163	-925	-770	-861	-1,302
Long-term loans extended (net)	-250	-39	-196	-51	-199
Total	-363	443	140	77	-440
C. Short-term capital (net)	-600	402	-235	-340	-260
D. Allocation of SDRs	--	38	--	--	--
E. Errors and omissions	573	922	-324	726	-153
F. Total (A through E)	-890	-251	-184	-1,080	190
G. Reserve movements					
Use of Fund credit SDRs	650	303	369	303	347
Reserve position in the Fund					
Gold					
Official foreign exchange (increase -)	240	-52	-185	777	-537

Source: National Bank of Yugoslavia.

1/ The trade flows for the first half of 1982 have been converted at statistical exchange rates which were the actual rates prevailing at the end of 1981. Since the exchange rates for the major currencies have shown a depreciation in the first half of 1982, vis-à-vis the U.S. dollar, the use of statistical rates tends to overestimate somewhat the trade flows invoiced in most non-dollar currencies in terms of current U.S. dollars. The statistical rates used for 1982 have also been used to revise estimates for the trade flows for 1981. For the first half of 1981, this procedure tends to underestimate somewhat the trade flows in terms of current U.S. dollars while for the second half it tends to overestimate them.

2/ Includes medium- and long-term borrowing by the National Bank and commercial banks.

Table 4. Yugoslavia: Balance of Payments, 1981-82

(In millions of U.S. dollars)

	Projections (Revised) 1982	Estimates		Estimate First half 1982	Projections Second half 1982
		First	Second		
		half	half		
A. Goods and services and unrequited transfers	-310	-1,358	912	-936	626
Exports, f.o.b.	10,870	4,576	5,629	4,397	5,973
Imports, c.i.f.	-14,190	-7,542	-6,986	-6,635	-7,555
Trade balance	-3,320	-2,966	-1,357	-1,738	-1,582
Services and unrequited transfers (net)	3,010	1,108	2,269	802	2,208
Credits					
Workers' and emigrants' remittances	4,515	1,800	2,394	1,925	2,590
Travel	2,000	450	1,263	495	1,505
Transportation	1,866	700	1,050	785	1,081
Interest	340	183	183	159	181
Other	1,997	900	880	970	1,027
Total	10,718	4,033	5,770	4,334	6,384
Debits					
Workers' and emigrants' remittances	-3,315	-1,128	-1,357	-1,570	-1,745
Travel	-115	-70	-55	-60	-55
Transportation	-870	-385	-466	-400	-470
Interest	-2,415	-907	-1,080	-1,052	-1,363
Other	-993	-435	-543	-450	-543
Total	-7,708	-2,925	-3,501	-3,532	-4,176
B. Long-term capital					
Long-term loans received (net) ^{1/}	-163	466	332	112	-275
Drawings	2,290	1,477	1,254	1,081	1,119
Repayments	-2,363	-1,011	-922	-969	-1,394
Long-term loans extended (net)	-250	-40	-210	-55	-195
Total	-413	426	122	57	-470
C. Bilateral balances	-500	-170	-606	-885	385
D. Short-term capital (net)	-600	402	-235	-340	-260
E. Allocation of SDRs	--	38	--	--	--
F. Errors and omissions	933	878	-344	1,024	-91
G. Total (A through F)	-890	-284	-151	-1,080	190
H. Reserve movements					
Use of Fund credit SDRs	650	336	336	303	347
Reserve position in the Fund					
Gold					
Official foreign exchange (increase -)	240	-52	-185	777	-537

Source: National Bank of Yugoslavia.

^{1/} The trade flows for the first half of 1982 have been converted at statistical exchange rates which were the actual rates prevailing at the end of 1981. Since the exchange rates for the major currencies have shown a depreciation in the first half of 1982, vis-à-vis the U.S. dollar, the use of statistical rates tends to overestimate somewhat the trade flows invoiced in most non-dollar currencies in terms of current U.S. dollars. The statistical rates used for 1982 have also been used to revise the estimates for the trade flows for 1981. For the first half of 1981, this procedure tends to underestimate somewhat the trade flows in terms of current U.S. dollars while for the second half it tends to overestimate them.

^{2/} Includes medium- and long-term borrowing by the National Bank and commercial banks.

Table 5. Yugoslavia: External Reserves

(In millions of U.S. dollars; end of period)

	National Bank of Yugoslavia Official Reserves					Foreign Assets of Deposit Banks	
	Reserve position in the Fund	SDRs	Gold	Foreign exchange	Total	Total	Total
1975	--	34	62	777	873	350	1,223
1976	--	10	62	1,980	2,052	658	2,710
1977	--	13	64	2,031	2,108	666	2,774
1978							
1st qtr.	--	12	66	2,184	2,263	714	2,978
2nd qtr.	--	12	66	2,000	2,155	820	2,976
3rd qtr.	79	24	66	2,283	2,453	869	3,322
4th qtr.	81	20	69	2,288	2,457	783	3,245
1979							
1st qtr.	78	52	71	1,845	2,046	727	2,773
2nd qtr.	--	76	71	1,711	1,858	664	2,522
3rd qtr.	--	72	71	1,654	1,797	942	2,739
4th qtr.	--	54	73	1,203	1,330	638	1,968
1980							
1st qtr.	--	74	75	762	911	424	1,335
2nd qtr.	--	100	78	782	960	843	1,803
3rd qtr.	--	79	78	802	959	1,273	2,232
4th qtr.	--	13	78	1,371	1,462	1,102	2,567
1981							
1st qtr.	--	22	78	1,408	1,508	1,130	2,638
2nd qtr.	--	21	78	1,415	1,514	987	2,501
3rd qtr.	--	33	78	1,435	1,546	1,044	2,590
4th qtr.	--	84	78	1,514	1,676	1,006	2,682
1982							
1st qtr.	4	37	78	1,041	1,156	822	1,978
2nd qtr.	--	--	78	847	925	852	1,777
July	--	--	78	695	783	790	1,573
August	--	--	78	777	855	...	...
September					927	840 ^{1/}	...

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

^{1/} September 20.

Table 6. Yugoslavia: National Accounts
(Percentage change at constant prices)

	In billions of dinars at current prices		Orig. <u>1/</u> (proj.)	1982		
	Actuals			First half <u>2/</u> (prel. est.)	Second half (proj.)	Full year (proj.)
	1981					
Personal consumption	1,143.3	-3.2	--	2.5	-2.8	-0.5
Public consumption <u>3/</u>	198.2	-3.1	-0.2	-0.6	0.4	0.0
Gross fixed capital formation	676.6	-11.3	-6.0	-3.0	-4.8	-4.0
Final domestic demand	2,018.1	-6.1	-2.1	0.3	-3.1	-1.6
Stockbuilding	232.1	-22.9	...	-4.5	-4.5	-4.5
Total domestic demand	2,256.2	-7.5	...	-0.2	-3.2	-2.0
Exports of goods and services	527.3	12.3	8.5	7.0	8.8	8.0
Imports of goods and services	678.0	-0.4	-2.2	-12.0	-3.2	-7.8
Gross social product	2,211.1	1.7	2.5	1.0	1.0	1.0

Source: Data provided by the Yugoslav authorities.

1/ According to Plan Resolution for 1982.

2/ Preliminary estimates.

3/ Only includes material outlays. The bulk of public sector current expenditures, in particular personal incomes, are not included in the public consumption aggregate in the national accounts.

Table 7. Yugoslavia: Monthly Changes in Domestic Price Indices
(Percentage change over previous month)

		Industrial producer prices	Retail prices	Services	Cost of living
<u>1981</u>	January	9.0	8.4	4.2	7.5
	February	3.8	3.9	3.5	3.5
	March	2.5	3.1	1.1	2.4
	April	2.4	2.8	2.3	2.1
	May	2.4	3.4	3.8	4.1
	June	2.3	1.7	3.0	1.1
	July	1.1	1.1	1.1	0.1
	August	2.3	0.9	0.6	0.4
	September	1.3	2.4	0.3	2.8
	October	3.4	3.7	1.0	3.5
	November	0.8	1.5	1.0	2.2
	December	1.3	1.1	1.2	1.9
<u>1982</u>	January	1.0	1.4	0.2	2.6
	February	1.8	2.0	0.2	1.8
	March	2.3	2.0	4.0	2.7
	April	1.4	2.0	4.1	2.4
	May	3.2	3.7	2.1	4.6
	June	2.4	2.6	1.5	1.9
	July	2.4	4.1	2.5	3.8

Source: Data supplied by the Yugoslav authorities.

Table 8. Yugoslavia: Domestic Price Developments

(Percentage change)

	Annual Average Change				12-Monthly Change							
	1970-79 1/		1980 1981		December 1979		December 1980		June 1981		June July 1982	
	1979	1980	1980	1981	December 1979	December 1980	December 1980	December 1981	June 1981	June 1981	July 1982	July 1982
Producer prices												
Industrial goods	14.1	13.2	27.3	45.0	15.2	39.8	51.3	37.4	24.3	24.3	25.7	25.7
Investment goods	10.9	6.1	12.3	25.0	5.3	22.2	25.0	18.7	15.3	15.3	17.8	17.8
Intermediate goods	15.5	16.0	34.3	47.1	17.8	46.7	55.8	40.8	26.6	26.6	26.7	26.7
Consumer goods	13.0	11.1	21.1	42.9	13.1	33.7	47.4	38.5	23.5	23.5	26.7	26.7
Agricultural goods	18.3	25.0	34.0	53.0	23.6	46.5	50.0	44.7	...	...	...	...
Retail prices												
Total	17.5	21.9	30.4	46.0	23.9	39.2	49.0	39.3	27.5	27.5	31.3	31.3
Agricultural products	17.9	20.4	34.1	40.0	25.8	42.2	41.6	36.0	42.8	42.8	51.7	51.7
Industrial products	17.4	22.9	31.6	50.0	24.0	41.7	55.2	41.5	26.5	26.5	29.9	29.9
Services	16.8	21.7	22.7	29.0	24.0	24.3	30.7	27.0	18.6	18.6	20.3	20.3
Cost of living												
Total	17.5	20.4	30.3	40.7	23.0	37.3	43.4	36.2	30.5	30.5	34.9	34.9
Food	18.2	18.3	31.8	42.9	22.7	40.3	45.1	38.0	37.3	37.3	44.3	44.3
Clothing	16.8	20.7	31.5	44.9	22.2	29.1	38.1	37.6	35.0	35.0	35.8	35.8
Rent	10.9	18.4	29.4	29.9	18.7	25.7	12.6	34.6	25.5	25.5	24.2	24.2
Services 2/	17.6	26.4	20.5	17.6	21.6	22.7	29.7	25.5	22.0	22.0	18.0	18.0
GSP deflator	17.7	21.0	31.0	40.0								

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

1/ Compound annual growth rate.

2/ Exclusive of rents.

Table 9. Yugoslavia: Net Personal Incomes per Worker
in the Socialized Sector

	Total		Enterprise sector		Cost of living index (5)	Real personal incomes	
	Dinars	Index	Dinars	Index		Total	Enterprise sector
	(1)	(2)	(3)	(4)		(6)= <u>(2)</u> (5)	(7)= <u>(4)</u> (5)
1978 Jan.-Dec.	5,075	52	4,913	51	45	116	113
1979 Jan.-Dec.	6,113	62	5,928	61	54	115	113
1980 Jan.-Dec.	7,368	75	7,167	74	71	106	104
Dec.	8,650	88	8,331	86	82	107	105
1981 Jan.-Dec.	9,846	100	9,675	100	100	100	100
Jan.	8,163	83	7,966	82	88	94	93
Feb.	8,573	87	8,396	87	91	96	96
Mar.	9,000	91	8,827	91	94	97	97
Apr.	9,397	95	9,229	95	96	99	99
May	9,428	96	9,245	96	100	96	96
June	9,711	99	9,491	98	101	98	97
July	10,422	106	10,366	107	101	105	106
Aug.	9,889	100	9,790	101	101	99	100
Sept.	10,045	102	9,895	102	104	98	98
Oct.	10,941	111	10,832	112	108	103	104
Nov.	10,849	110	10,639	110	110	100	100
Dec.	11,590	118	11,277	117	112	105	104
1982 Jan.	10,750	109	10,540	109	115	95	95
Feb.	11,449	116	11,261	116	117	99	99
Mar.	12,075	123	11,866	123	120	103	103
Apr.	12,224	124	11,988	124	123	101	101
May	12,225	124	12,041	125	129	97	97
June ^{1/}	12,435	126	12,281	126	131	96	96
1982 Jan.-June	11,860		11,660		122	99	99
(Percentage changes) ^{2/}							
Dec. 80-June 81	12.3		13.9		23.1	-8.4	-7.6
June 81-Dec. 81	19.3		18.8		10.9	7.1	7.2
Dec. 80-Dec. 81	34.0		35.4		36.6	-1.9	-1.0
Dec. 81-June 82	7.3		8.9		17.2	-8.3	-7.3
First 6 months of 1982 over first 6 months of 1981	31.1		31.9		29.1	1.5	2.2
Second quarter of 1982 over fourth quarter of 1981	10.5		10.9		12.9	-2.1	-1.8

Source: Data supplied by Yugoslav authorities.

^{1/} Preliminary estimates for net personal incomes for June 1982.

^{2/} Percentage changes are based on data that are less rounded than those presented in the table.

Table 10. Yugoslavia: Receipt and Distribution of Enterprise Incomes

	1981		1982		1982 1/		(Percentage change)
	1st half	2nd half 3/	1st half 1/	2nd half 1/	1st half 1981	2nd half 1981	
	(In millions of dinars)						
Gross enterprise income	692.8	887.4	884.9	27.7			-0.3
Net enterprise income	483.4	615.8	606.5	25.4			-1.5
Resources set aside for personal incomes and collective consumption	368.4	490.8	480.5	30.4			-2.1
Net personal income paid	244.8 2/	306.7 3/	327.6 2/	33.8			6.8
Resources for financing investment and allocations to reserves	115.6	100.6	132.1	14.3			31.3

Source: Data supplied by the Yugoslav authorities.

1/ Preliminary estimates.

2/ Advanced payments.

3/ Figures for the second half of 1981 have been derived as a residual by subtracting the first half figures from the figures for the full year. As figures for personal incomes for 1981 include bonuses and other remunerations based on the final accounts on enterprise performance for the full year, figures for the second half of 1981 in this sense are not comparable with the figures for the first halves of 1981 and 1982.

Table 11. Yugoslavia: Monetary Survey
(In billions of dinars; end of period)

	1981				1982				
	March	June	Sept.	Dec.	March	June	July	Aug. (prelim.) (proj.) Dec.	
Net foreign assets	-283.2	-335.5	-343.9	-375.1	-411.2	-429.7	-460.8	...	-438.4
Domestic credit									
Total	1,661.5	1,750.7	1,830.9	1,927.8	2,013.0	2,108.3	2,175.7	2,202.6	2,286.8
SBA definition	...	...	...	1,927.8	1,996.0	2,076.3	2,139.7	2,160.6	2,247.0
Money supply	477.2	506.0	545.6	584.3	594.0	616.3	659.7	666.5	675.0
Quasi-money	827.6	870.6	941.8	1,043.3	1,132.0	1,170.4	1,185.2	...	1,309.2
Other items, net	73.5	38.6	-0.4	-74.9	-99.8	-108.1	-130.0	...	-135.8

Sources: National Bank of Yugoslavia and staff estimates.

Table 12. Yugoslavia: Interest Rates

(In per cent; end of period)

	1979	1980	1981	(First half) 1982
National Bank				
Official discount rate	6	6	6	12
Credits to banks for selective purposes	1-6	1-6	1-6	4-8
Credits to banks for liquidity purposes	8	8	8	12
Credits to non-bank sectors	1-3	1-3	1-3	1-3
Yield at Issue				
Federal government bonds	8-10	8-10	8-10	8-10
Bonds issued by other socio-political communities	3-10	3-10	3-10	3-10
Commercial Banks				
Short-term credits				
Selective credits from bank resources	2-7	2-7	2-7	8-12
Discount of bills of exchange	7.5-11	9-12	9-12	12-17
Credits for financing working balances	9-11	9-11.5	9-12	9-17
Long-term credits				
Credits for financing fixed assets	8.5-10	8-11	8-12	9-17
Credits for financing working balances	9-10	9-11	9-12	9-16
Deposit rates				
Deposits of users of social resources				
Sight deposits/economic sector/	-	-	-	1
Notice deposits				
Up to one year	2	2	2	2-4
Over one year	3-6	3-6	3-6	8-12
Dinar deposits of households				
Sight deposits	7.5	7.5	7.5	7.5
Notice deposits	9-10	9-10	9-10	11-15
Foreign currency deposits of households				
Sight deposits	7.5	7.5	7.5	7.5
Notice deposits	9-10	9-10	9-10	9-10

Source: National Bank of Yugoslavia.

Table 13. Yugoslavia: Money and Quasi-Money
by Sector and Asset

(End-of-period stocks; in billions of dinars)

	1981				1982	
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Households						
Money supply	121.3	136.6	145.1	164.1	161.0	184.1
Short-term foreign						
currency deposits	119.1	124.9	138.4	164.0	181.7	185.3
Other liquid assets <u>1/</u>	135.3	138.8	140.7	156.1	171.1	179.2
Long-term foreign						
currency deposits	125.3	127.8	133.9	155.7	170.4	172.8
Other quasi-money <u>2/</u>	68.6	73.6	77.1	86.6	95.7	104.1
Total	569.6	601.7	635.2	726.5	779.9	825.5
Enterprise sector <u>3/</u>						
Money supply	190.9	197.5	211.9	240.4	227.1	238.3
Short-term foreign						
currency deposits	93.8	102.9	116.3	129.4	151.2	139.1
Other liquid assets <u>1/</u>	61.9	66.9	85.1	83.9	87.3	84.6
Long-term foreign						
currency deposits	0.6	0.5	0.5	0.6	0.6	0.0
Other quasi-money <u>2/</u>	124.2	131.7	139.7	151.9	158.9	166.4
Total	471.4	499.5	553.5	606.2	625.1	628.4
Other sectors <u>4/</u>						
Money supply	165.0	171.9	188.6	179.8	205.7	193.9
Short-term foreign						
currency deposits	5.8	6.4	21.1	16.2	12.8	24.9
Other liquid assets <u>1/</u>	23.5	23.8	12.8	23.6	24.8	13.7
Long-term foreign						
currency deposits	0.6	0.7	0.8	0.8	0.9	0.5
Other quasi-money <u>2/</u>	68.9	72.6	75.4	74.6	77.9	63.3
Total	263.8	275.4	298.7	295.0	322.1	296.3
All sectors						
Money supply	477.2	506.0	545.6	584.3	593.8	616.3
Short-term foreign						
currency deposits	218.7	234.2	275.8	309.6	345.7	349.3
Other liquid assets <u>1/</u>	220.7	229.5	238.6	263.6	283.2	277.5
Long-term foreign						
currency deposits	126.5	129.0	135.2	157.1	171.9	173.3
Other quasi-money <u>2/</u>	261.7	277.9	292.2	313.1	332.5	333.8
Total	1,304.8	1,376.6	1,487.4	1,627.7	1,727.1	1,750.2

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

1/ Short-term sight, time, and restricted deposits.

2/ Long-term time and restricted deposits, securities, pooled resources, and deposits for housing and communal development.

3/ Organizations of associated labor and self-managing communities of interest in the economic sector.

4/ Sociopolitical communities, noneconomic organizations, other financial institutions, and the rest of the world.

Table 14. Yugoslavia: Budget of the Federation

(In billions of dinars)

	1980	1981	1982 Original Budget <u>1/</u>	1981 First Half Actuals	1982
Revenue					
Customs duties and other import fees	20,694	16,187	30,288	11,706	11,835
Contributions from republic and provinces	38,469	63,773	80,378	22,717	32,266
General turnover and sales taxes	47,400	71,344	88,933	26,335	32,414
Other taxes	230	209	640	112	112
Nontax revenue	<u>2,501</u>	<u>3,309</u>	<u>3,636</u>	<u>1,384</u>	<u>1,694</u>
Total revenue	109,354	164,822	203,875	61,954	78,321
Expenditure					
Administration	18,574	20,061	24,579	9,548	14,654
Defense	76,149	99,128	122,685	36,135	41,645
Grants to republics and provinces	14,258	15,979	20,834	6,522	10,029
Grants to funds and com- munities of interest	18,700	24,776	30,920	10,969	13,187
Investment	818	936	300	319	159
Other or discrepancy	<u>1,173</u>	<u>2,466</u>	<u>2,231</u>	<u>1,499</u>	<u>982</u>
Total expenditure	129,672	163,346	201,519	64,992	80,656
Surplus or deficit	-20,318	1,476	2,356	-3,038	-2,335
(As a per cent of GSP)	(-1.3)	(0.1)	(0.1)	(-0.4)	(-0.3)
Financing, net domestic <u>2/</u>	<u>20,318</u>	<u>-1,476</u>	<u>-2,356</u>	<u>3,038</u>	<u>2,335</u>
Bond issues	13,344	--	--	--	--
National Bank credits	9,200	4,600	--	4,600	--
Repayment of bank credits	-726	-1,791	-1,562	-1,278	-1,702
Bond amortization	-1,264	314	-450	-220	-292
Allocation to budgetary reserves	-236	-3,971	-344	-143	4,329

Source: Data supplied by the Yugoslav authorities.

1/ From the resolution for the Annual Plan for 1982.

2/ There is no external financing of the budget.

Table 15. Yugoslavia: External Debt Disbursed
and Outstanding, 1976-81 1/

(In millions of U.S. dollars)

	End of Period Totals						Official
	1976	1977	1978	1979	1980	1981	Projections 1982
Repayable in convertible currencies	6,627	8,154	10,233	13,224	16,848	17,820	17,108
Medium- and long-term <u>2/</u>	6,377	7,804	9,801	12,356	14,798	15,561	15,449
Short-term <u>3/</u>	250	350	432	868	2,050	2,259	1,659
Repayable in bilateral currencies	<u>934</u>	<u>1,127</u>	<u>1,362</u>	<u>1,490</u>	<u>1,542</u>	<u>1,531</u>	<u>1,481</u>
Total	<u>7,561</u>	<u>9,281</u>	<u>11,595</u>	<u>14,714</u>	<u>18,390</u>	<u>19,351</u>	<u>18,589</u>
Memorandum item:							
Ratio of medium- and long-term convertible debt to GSP (excluding Fund purchases)	19.6	19.4	20.3	20.1	23.4	25.0 <u>4/</u>	...

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

1/ Values converted at statistical exchange rate.

2/ Original maturity over one year (excludes Fund purchases).

3/ Original maturity up to and including one year.

4/ Converted at period average rate.

Table 16. Yugoslavia: External Debt Service Payments
on Medium- and Long-Term Debt, 1977-85 ^{1/}

(In millions of U.S. dollars)

	1977	1978	1979	1980	1981	Rev. 1982	Projections		
							1983	1984	1985
A. Repayable in convertible currencies, excluding IMF									
Debt service	1,492	1,774	2,287	2,899	3,582	4,371	4,610	4,360	4,100
Amortization	(1,114)	(1,336)	(1,568)	(1,844)	(1,695)	(2,162)	(2,350)	(2,310)	(2,200)
Interest	(378)	(438)	(719)	(1,055)	(1,887)	(2,209)	(2,260)	(2,050)	(1,900)
B. Repayable in bilateral currencies									
Debt service	163	121	171	207	258	273	310	350	450
Amortization	(149)	(104)	(134)	(162)	(218)	(201)	(230)	(260)	(350)
Interest	(14)	(17)	(37)	(45)	(40)	(72)	(80)	(90)	(100)
C. On debt to IMF ^{2/}									
Debt service	148	114	80	101	148	163	310	408	397
Repurchases	(124)	(94)	(59)	(70)	(88)	(55)	(196)	(312)	(327)
Charges	(24)	(20)	(21)	(31)	(60)	(118)	(114)	(96)	(70)
D. Debt service									
Convertible (A + C)	1,640	1,888	2,367	3,000	3,730	4,534	4,920	4,768	4,497
Total (A + B + C)	1,803	2,009	2,538	3,207	3,988	4,807	5,230	5,118	4,947
E. Debt service ratios ^{3/}									
(in per cent)									
Convertible currencies, excluding IMF	17.2	17.8	19.3	19.9	23.1	25.6	24.5	21.1	18.0
Total, excluding IMF	15.6	15.5	17.2	17.0	19.2	21.5	20.7	18.0	15.8

Sources: Data supplied by the Yugoslav authorities; and staff estimates. Projections do not take account of debt service on future borrowing.

^{1/} Debts with original maturity of over one year.

^{2/} Projections for 1982 and beyond based on purchases outstanding at end-December 1981. Actual charges for 1982 and beyond will therefore be substantially higher if purchases are made as scheduled.

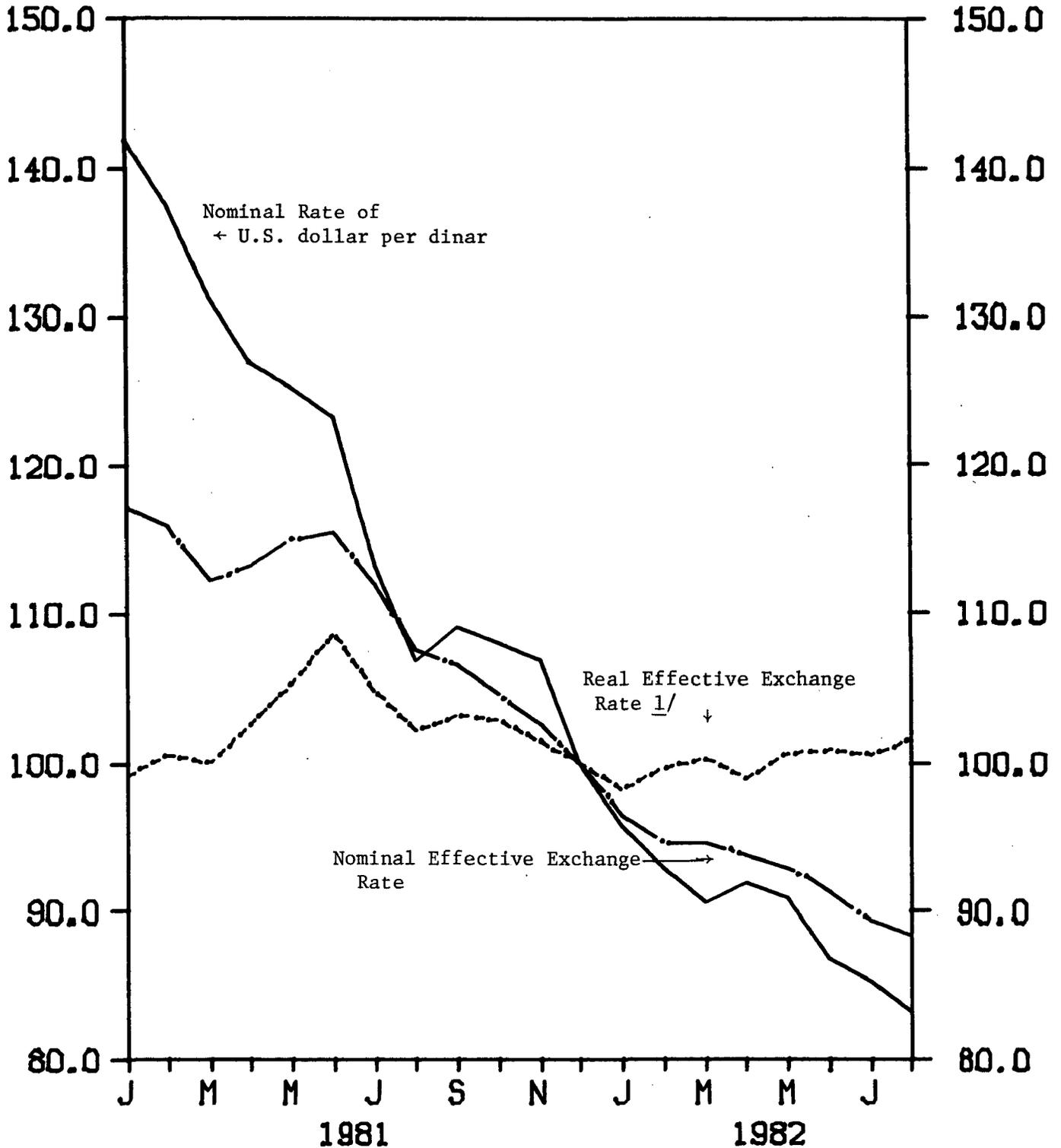
^{3/} Ratio of debt service to exports of goods and services. Assumes exports of goods and services to the convertible area increase at 15 per cent per annum for 1983-85.

Chart I.

Yugoslavia

Exchange Rate Developments

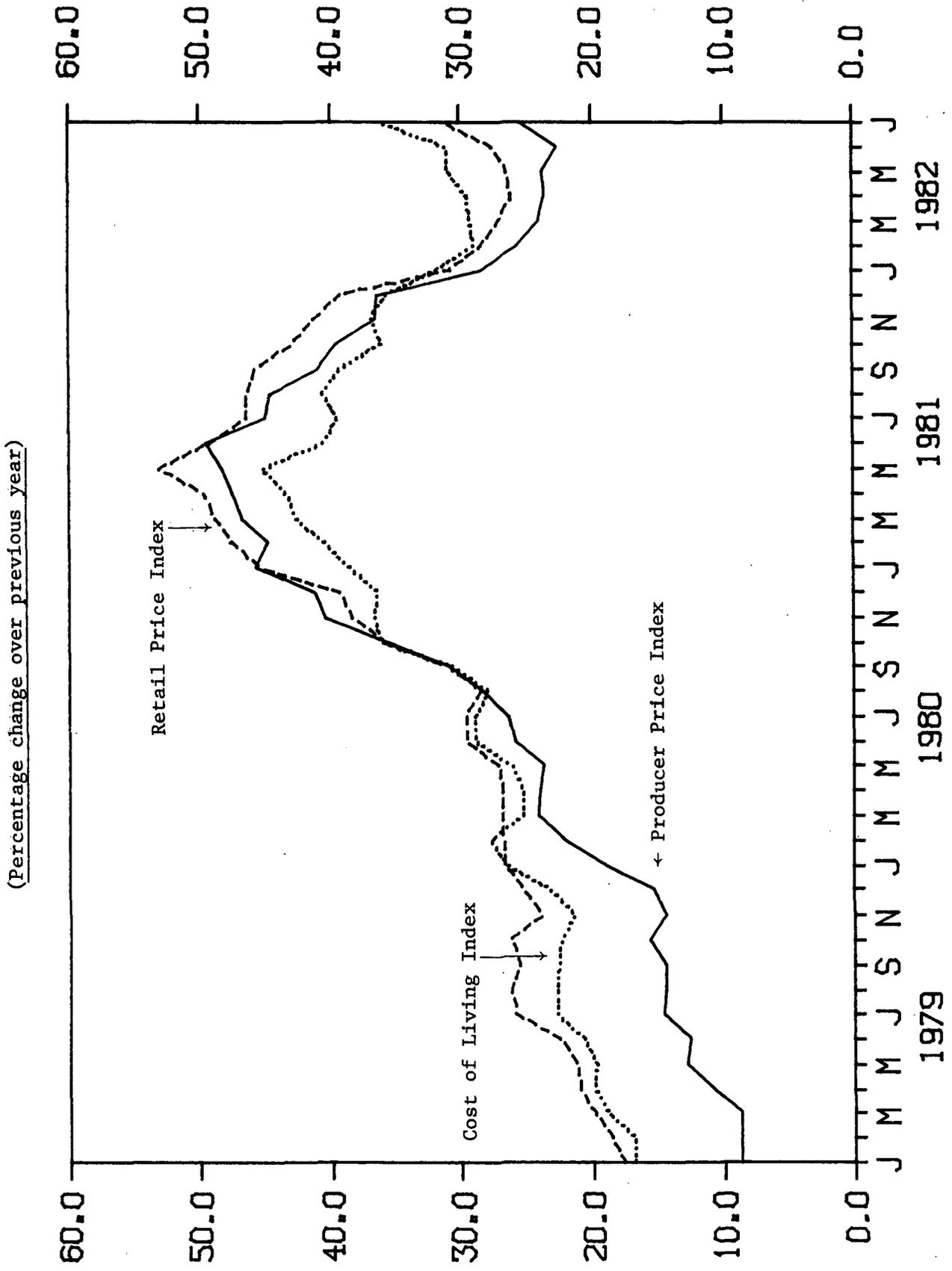
(End of period, 1981 = 100)



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

^{1/} Adjusted for relative producer prices.

Chart II
Yugoslavia
Development of Prices
(Percentage change over previous year)



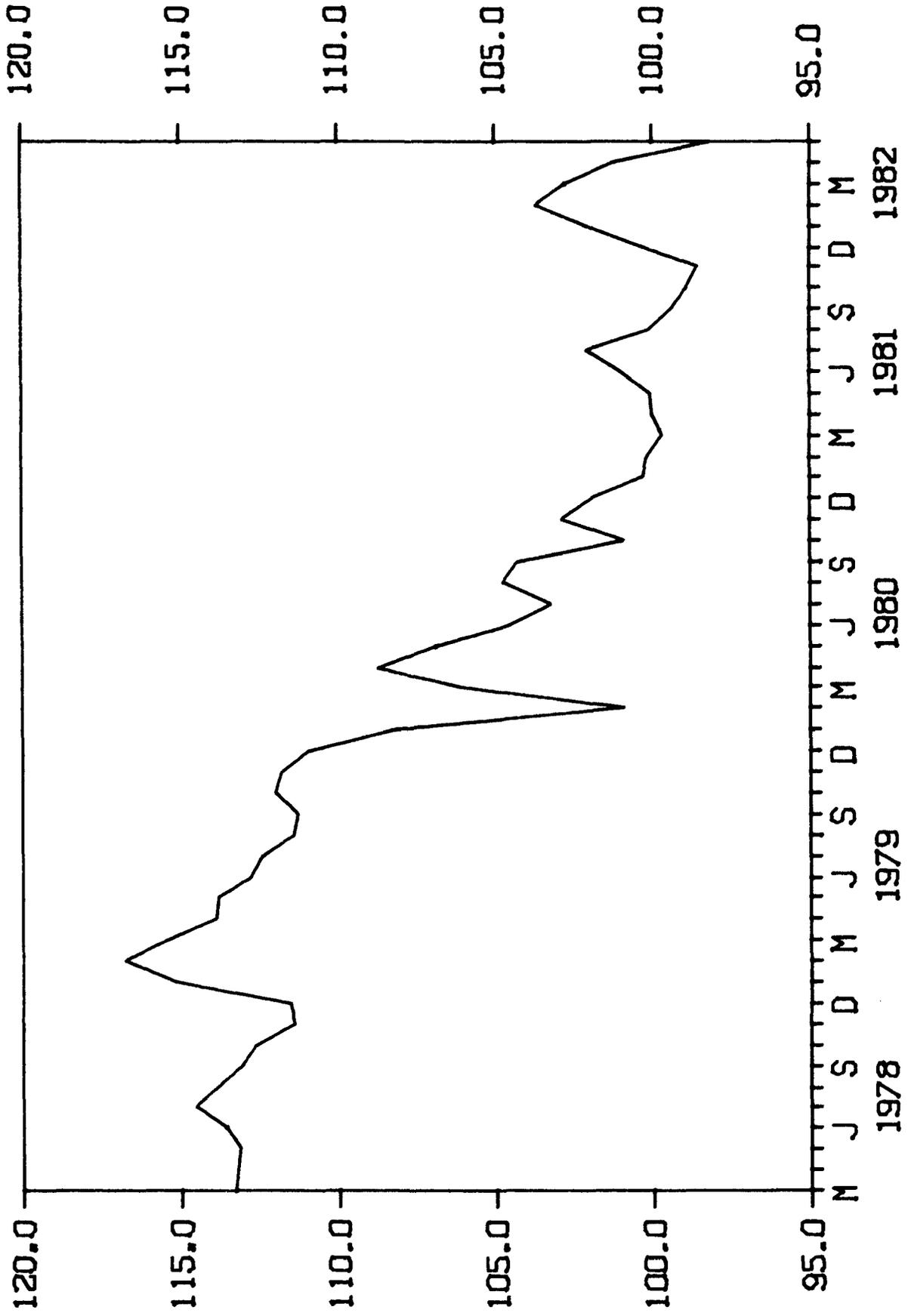
Source: IMF, International Financial Statistics.

Chart III

Yugoslavia

Real Personal Incomes

(Monthly index seasonally adjusted; 1981 = 100)



Sources: IMF, International Financial Statistics; and staff calculations.