

February 24, 1982 - 82/23

The Chairman's Summing Up at the Conclusion of the
1981 Article IV Consultation with Yugoslavia
Executive Board Meeting 82/23 - February 22, 1982

Executive Directors warmly commended the Yugoslav authorities for their persistent and effective stabilization efforts in 1981, particularly with respect to demand management policies. They noted that the policy-induced decline in real domestic demand and incomes, together with adjustments to prices, including the exchange rate, have now eliminated excess demand and shifted resources to the external sector, while achieving a modest rate of economic growth. Monetary restraint has been maintained despite the liquidity difficulties of enterprises, the operations of the public sector were contractionary, and appropriate price and incomes policies were being pursued. The rise in inflation and the decline in the growth of exports to the convertible currency area in early 1981 were disturbing developments, but Directors were encouraged by the favorable price and exports outcome in the second half of 1981.

Directors welcomed the shift in medium-term policies toward correcting the underlying structural problems of the economy. The policies included in the revised plan for the period 1981-85 would channel a greater proportion of available funds into clearly defined priority sectors. Price policies, including the exchange and interest rate action, would provide the correct signals for the decentralized decision making of enterprises. Directors stressed that the planned reduction in the dependence on foreign borrowing and the attainment of a satisfactory growth rate for employment and output will depend critically on the sustained and rapid expansion of exports and on the increased mobilization of domestic saving. In this context, it was noted in particular that the target date for restoring equilibrium on the external current account had been advanced from 1985 to 1983. The growth of nominal domestic demand will have to be gradually reduced to a level consistent with the growth in the noninflationary productive capacity of the economy, and will need to be reinforced by price and incomes policies. Directors endorsed the action taken on interest and exchange rates but questioned whether the rise in interest rates had been sufficient. They welcomed the intention of the authorities to keep these policies under continuous review and adapt them to the evolving needs of the economy.

With reference to economic policies for 1982, Executive Directors supported the authorities' policies of continued restraint on demand and incomes, and a realistic exchange rate policy. Directors considered that the target of limiting price increases to 15 per cent during 1982, from 39 per cent in 1981, may be difficult to achieve, but that the resolute implementation of the planned monetary and fiscal policies will restrain demand, while the prices and incomes policies will minimize the impact of cost and profit pressures on prices. Directors also regarded the

planned expansion of export volume of 8.5 per cent in 1982 to be an ambitious target, especially in view of the sluggishness of world demand. Furthermore, they wondered whether the recent sharp slowdown in imports from the convertible area was sustainable. They therefore concluded that it was all the more important that the intended policy measures should be firmly implemented.

In sum, there was broad agreement among Directors to support fully the Yugoslav authorities' stabilization objectives and their policies to correct underlying structural problems. From a longer-term point of view, some Directors expressed the hope that international conditions would make it possible again for Yugoslavia to achieve its growth objectives by running a sustainable current account deficit offset by long-term capital inflows.