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FM BELGRADE
TO DESKBY 050930Z FCO
TELNO 93
OF 050705Z APRIL 88
INFO IMMEDIATE UKDEL IMF/IBRD WASHINGTON
INFO PRIORITY BONN, PARIS, ROME

BELGRADE TELNO 90: IMF/YUGOSLAVIA *m*

1. ACCORDING TO THE GERMAN ACCOUNT, RUSSO TOLD THE FINANCE MINISTRY IN BONN ON 30 MARCH THAT A MEMORANDUM OF UNDERSTANDING HAD BEEN INITIALLED BETWEEN THE IMF MISSION AND THE YUGOSLAV GOVERNMENT, WHICH WOULD RELEASE DOLLARS 430 MILLION OVER A 12 MONTH PERIOD. THIS NOW REQUIRED THE APPROVAL OF THE IMF BOARD, WHILE THE YUGOSLAVS NEEDED TO AGREE THE RATE OF DEVALUATION WITHIN A WEEK.

2. BEFORE THE IMF WOULD PUT THE MEMORANDUM TO THE EXECUTIVE DIRECTOR, THE YUGOSLAV GOVERNMENT NEEDED TO FULFIL VARIOUS CONDITIONS:

(A) REAL DEVALUATION OF DINAR BY 25 PER CENT (33 PER CENT IN DINAR TERMS) IN 2 STAGES. (THE YUGOSLAVS HAD BEEN PREPARED TO AGREE ONLY TO 20 PER CENT IN DINAR TERMS):

(B) LIBERALISATION OF FOREIGN EXCHANGE ALLOCATION AND PHASING OUT OF ARTICLE 110:

(C) LIBERALISATION OF IMPORTS FROM THE CURRENT 26 PER CENT TO 40 PER CENT OF TOTAL IMPORTS (AND NO IMPORT RESTRICTIONS FROM 1990):

(D) LIBERALISATION OF IMPORT PRICES:

(E) INTRODUCTION OF MANAGED FLOATING OF THE DINAR.

3. FOR THE PROGRAMME ITSELF, WHICH RUSSO COMMENDED, THE IMF HAD AGREED TO AN APPROACH WHICH WOULD HOLD THE INFLATION RATE UNDER 100 PER CENT IN 1988, AND KEEP REAL INTEREST RATES POSITIVE BY AT LEAST 2 PER CENT.

4. THE IMF RECKONED THAT DOLLARS 1.5 BILLION OF FINANCING WAS NECESSARY, WITH DOLLARS 500 MILLION EACH FROM GOVERNMENTS,

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COMMERCIAL BANKS AND THE IMF AND WORLD BANK. THE IMF UNDERSTOOD THAT MIKULIC INTENDED TO VISIT BONN SOON TO SEEK ACTIVE SUPPORT FROM THE FRG. THE CLOSING OF THE FINANCIAL GAP WAS AN IMPORTANT PRECONDITION FOR THE PROGRAMME AND FOR NEW CREDITS.

5. THE YUGOSLAV GOVERNMENT WANTED AGREEMENT ON THE PROGRAMME BEFORE MID-MAY WHEN MIKULIC'S MANDATE WAS DUE FOR RENEWAL. THIS MEANT THE IMF MUST PRESENT ITS REPORT AND RECOMMENDATION TO THE EXECUTIVE DIRECTOR IN APRIL. THIS TIME-SCALE WAS TIGHT AND SEEMED UNREALISTIC. BUT FURTHER DELAY WOULD ALSO CREATE PROBLEMS, EG THE AGREED PERFORMANCE CRITERIA WOULD REQUIRE REVISION.

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