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OO BELGRADE
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FM FCO 031300Z DEC 82
TO IMMEDIATE BELGRADE
TELEGRAM NUMBER 183 OF 3 DECEMBER
INFO IMMEDIATE COPENHAGEN (FOR EVANS AND BULLARD), UKDEL
IMF/IBRD WASHINGTON
INFO PRIORITY WASHINGTON, BONN, PARIS, ROME
INFO ROUTINE UKDEL NATO
INFO SAVING UKDEL OECD, MOSCOW
YUGOSLAVIA : ECONOMIC CRISIS
SUMMARY

1. A MEETING IN PARIS ON 2 DECEMBER UNDER FRENCH CHAIRMANSHIP, ATTENDED BY REPRESENTATIVES FROM THE UK, FRG, US AND ITALY DISCUSSED YUGOSLAVIA'S ACUTE FINANCIAL PROBLEM. THE UNITED STATES PROPOSED THAT, TOGETHER WITH OTHER WESTERN CREDITORS, DOLLARS 1 BILLION OF GOVERNMENT-BACKED FINANCIAL ASSISTANCE SHOULD BE MADE AVAILABLE. THE US WAS PREPARED TO COMMIT ITSELF IN PRINCIPLE TO CONTRIBUTING. NO OTHER DELEGATION MADE A SIMILAR COMMITMENT AND OTHER OPTIONS FOR ASSISTING YUGOSLAVIA WERE ALSO CONSIDERED, INCLUDING RESCHEDULING IN SOME FORM. THE GROUP AGREED TO MEET AGAIN ON 14 DECEMBER TO SEE IF THERE WAS COMMON AGREEMENT TO ASSIST YUGOSLAVIA AND IF SO IN WHAT WAY.

2. DISCUSSION COVERED THE POLITICAL, ECONOMIC AND FINANCIAL ASPECTS OF THE PROBLEM.

POLITICAL

3. WITH THE US TAKING THE LEAD, THERE WAS AGREEMENT ON THE STRATEGIC AND POLITICAL IMPORTANCE OF MAINTAINING YUGOSLAVIA'S NON-ALIGNED STATUS. PAYE (FRANCE, CHAIRMAN) EMPHASISED THE POLITICAL AND STRUCTURAL FRAGILITY OF YUGOSLAVIA POST-TITO, THE ADDITIONAL STRAINS BROUGHT ABOUT BY ECONOMIC

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AUSTERITY MEASURES NOW BEING PURSUED, THE VULNERABILITY OF THE COUNTRY TO EASTERN PRESSURES AND THE POLITICAL SENSITIVITY OF THE GOVERNMENT TO CERTAIN FORMS OF FINANCIAL ASSISTANCE.
ECONOMIC

4. ALL WERE AGREED THAT THERE WERE BASIC STRUCTURAL ECONOMIC WEAKNESSES (FEDERAL STRUCTURE OF THE COUNTRY, SELF-MANAGEMENT SYSTEMS, ETC). THESE REQUIRED MEDIUM/LONG TERM TREATMENT AND APPROPRIATE IMF PROGRAMME. BUT THERE WAS AN IMMEDIATE FINANCIAL CRISIS REQUIRING URGENT ATTENTION.

FINANCIAL

5. MEISSNER (US) SAID THE IMMEDIATE PROBLEM WAS THE FINANCING GAP. THE MAIN ELEMENT WAS BANKING CONFIDENCE. MORE THAN A QUICK-FIX WAS NEEDED. ANY SOLUTION SHOULD LEAD INTO A LONGER TERM RESTRUCTURING AND CHANGES IN THE YUGOSLAV ECONOMY. RESCHEDULING WAS NOT THE RIGHT APPROACH. IT WOULD INCREASE LACK OF CONFIDENCE AND PRECIPITATE THE PROBLEM WE WISHED TO AVOID.

6. DISCUSSION TURNED TO THE FIGURES CIRCULATED BY THE AMERICANS (COPIES BY BAG). MOST DELEGATIONS QUESTIONED THE US ASSUMPTION ABOUT THE FINANCING GAP. MEISSNER EVENTUALLY ACCEPTED THAT IT WOULD BE AT LEAST DOLLARS 1.5 BILLION. SMITH (BANK OF ENGLAND) SAID THE IMF TEAM NOW IN BELGRADE MIGHT FIND THAT IT WAS WORSE.

7. MEISSNER SPELT OUT THE US PROPOSAL:

- A. YUGOSLAVIA SHOULD HAVE DOLLARS 1 BILLION FOR THE FIRST SIX MONTHS OF 1983.
- B. A PUBLIC STATEMENT OF INTENT SHOULD BE MADE BY LATE DECEMBER OR EARLY JANUARY.
- C. THE FINANCIAL ASSISTANCE WOULD BE PART OF A PACKAGE INCLUDING AN IMF PROGRAMME, YUGOSLAV UNDERTAKINGS TO MAKE STRUCTURAL ADJUSTMENTS, AND INFORMAL UNDERSTANDINGS WITH THE COMMERCIAL BANKS.
- D. ALL HARD CURRENCY CREDITORS WOULD BE INVITED TO CONTRIBUTE, WITH BURDEN SHARING BASED ON THE APPROXIMATE RATIO OF PRESENT CREDIT EXPOSURE.

8. FRENCH COMMENTS REVEALED A SLIGHT DIFFERENCE OF EMPHASIS BETWEEN QUAI AND TRESOR. CAMDESSUS (TRESOR) SUGGESTED DEFERRING A DECISION TO GIVE TIME FOR A 'PEDAGOGIC EXCHANGE' WITH THE YUGOSLAVS IN WHICH THEY MIGHT BE BROUGHT TO APPRECIATE THE ADVANTAGES OF RESCHEDULING. PAYE (QUAI) STRESSED, HOWEVER, THAT SOMETHING ALSO NEEDED TO BE DONE TO DEAL WITH THE IMMEDIATE PROBLEM OF CONFIDENCE.
9. SARCINELLI (ITALIAN TREASURY) SAID THAT IF THE CREDITORS COULD CONVINCE THE MAJOR BANKS TO PROVIDE NEW LOANS THE PROBLEM WOULD BE RESOLVED. BUT ALL BANKS MAJOR AND MINOR WOULD NEED SIMILAR TREATMENT. HE MENTIONED SOME DEGREE OF RESCHEDULING AS A WAY OF LOCKING IN THE BANKS.
10. LOECK (FRG) THOUGHT THAT RESCHEDULING AND NEW LOANS WERE NOT ALTERNATIVES. IT WAS DIFFICULT, IF NOT IMPOSSIBLE, TO FIND THE MEANS TO COVER THE FINANCING GAP QUICKLY. RESCHEDULING HAD THE ADVANTAGE OF REDUCING THE AMOUNT OF FINANCE REQUIRED. BUT IT WAS QUITE CLEAR THAT NECESSARY BUILDING OF CONFIDENCE COULD NOT BE SOLVED BY RESCHEDULING ALONE: SOME NEW MONEY WAS ALSO NEEDED.
11. LITTLER (UK) RECOGNISED THE POLITICAL IMPORTANCE OF HELPING YUGOSLAVIA. BUT WE SHOULD NOT RULE OUT RESCHEDULING. THE TERM COVERED A WHOLE VARIETY OF OPTIONS. IT COULD BE PRESENTED AND PACKAGED IN MANY WAYS. IT WOULD BE A PITY IF THE IMF GAVE THE YUGOSLAVS THE IMPRESSION THAT RESCHEDULING, IN WHATEVER FORM, WAS RULED OUT. IN ANY OVERALL PACKAGE
12. PAYE INITIATED A DIFFUSE DISCUSSION OF THE 'VENICE DECLARATION' (JUNE 1980 ECONOMIC SUMMIT). HE CLAIMED THAT IF COMMITMENTS WERE HONOURED YUGOSLAVIA WOULD OBTAIN THE NECESSARY FUNDS. IT WAS CLEAR THAT PAYE CONSIDERED FRANCE HAD PLAYED A FULL PART AND SAW THIS AS A WAY OF REDUCING A FRENCH CONTRIBUTION TO ANY FUTURE PACKAGE. THE ITALIANS DID NOT RESPOND NEGATIVELY. LOECK RESISTED THE SUGGESTION STRONGLY. IF IT WAS PURSUED THE GERMANS WOULD WISH THE TOTALITY OF PAST CONTRIBUTIONS TO BE TAKEN INTO CONSIDERATION. WE SUPPORTED THEM. MEISSNER OPPOSED THE SUGGESTION ON THE

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GROUNDS THAT IT WOULD OPEN UP A TIME WASTING DISCUSSION OVER BURDEN SHARING.

13. AFTER CONSIDERABLE FURTHER DISCUSSION AND ONE OR TWO ATTEMPTS TO SUM UP, PAYE CONCLUDED THAT:

- A. THE IMF MISSION MIGHT PROVIDE BETTER CURRENT INFORMATION ABOUT THE YUGOSLAV ECONOMY, GOVERNMENTS SHOULD HOWEVER PROCEED IN PARALLEL:
- B. DELEGATIONS PRESENT WOULD REFER TO THEIR GOVERNMENTS TO SEE WHETHER THEY WERE PREPARED TO STATE THEIR INTEREST IN HELPING YUGOSLAVIA:
- C. IF THEY WERE THEY SHOULD DEFINE WHAT TYPE OF HELP EG PERSUADE THE COMMERCIAL BANKS TO EXTEND NEW CREDITS; NEW GOVERNMENT MONEY SEMI-COLON OR GOVERNMENT GUARANTEED LOANS
- D. WHAT CONDITIONALITY SHOULD APPLY
- E. HOW TO PRESENT A PACKAGE:
- F. HOW TO BRING IN OTHER COUNTRIES (MEISSNER CLAIMED TO OTHER WESTERN COUNTRIES WERE WILLING TO CONTRIBUTE):
- G. THOSE PRESENT WOULD RECONVENE ON 14 DECEMBER.

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