


 Yugoslavia (2)  
Prime Minister

A.J.C. 12

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FOREIGN AND COMMONWEALTH SECRETARY

 YUGOSLAVIA: ECONOMIC CRISIS
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Thank you for your minute of 7 December.

2. The Yugoslav problem will indeed be discussed at my meeting with the other G5 Finance Ministers tomorrow. (We shall also be discussing Brazil: for whom a bridging operation of similar size is envisaged, and the Americans look to their European and other allies to make a substantial contribution).

3. I think you know my view, and agree with it, that a credible and realistic solution to Yugoslavia's financial crisis must include a substantial element of rescheduling. The other essential element of course, as you say, is a tight IMF programme. It is unfortunate that the Yugoslavs have taken such a firm stand to date against rescheduling, and doubly unfortunate that they appear to have been encouraged in this attitude by the Americans, whose own analysis of the gravity of the Yugoslav financial crisis seems to have been amateurish and superficial.

4. I understand that at the meeting of officials on 2 December it was evident that our other allies are closer to our own diagnosis than that of the Americans. At the forthcoming Ministerial gatherings with our closest allies we should, I think, build on this. We need to continue to impress on the Americans that both their analysis of the Yugoslav situation, and their proposed solution of a major international rescue operation involving new money or new credit, are unrealistic. (The tactless way in which they have inspired the latest Brazilian approach to European



creditors makes it even less likely of course that official funds will be forthcoming for Yugoslavia on anything like the scale which would be required even on the Americans' own optimistic analysis.)

5. At the same time I agree with you that it would be difficult for us to decline to make any contribution to a collective rescue operation if other creditors and allies were prepared to chip in. Other reasons apart, our claim that the American approach is an inadequate response to the Yugoslav problem would look like self-interest. I would not therefore exclude some indication to the Americans and others of willingness to make a modest contribution to a rescue package, if that is essential to avoid our being identified as the only country not prepared to do anything over and above debt relief. Any such offer ought in my view to be subject to the following three pre-conditions being met:

- (i) The Fund staff would need to put forward, and the Yugoslavs accept, an adequate IMF programme.
- (ii) The burden of any assistance package would have to be widely spread.
- (iii) The need to consider rescheduling, and to explain the advantages of it to the Yugoslavs, should be accepted among the creditors.

6. As to the form and amount of any contribution we might make to a special assistance package, I would hope that we could avoid being too specific at this stage. But, subject to Arthur Cockfield's views, I would see no objection to ECGD's providing guarantees of new commercial bank lending, on a medium term basis and at commercial rates of interest, to refinance 1983 maturities of ECGD-guaranteed loans. \$60 million, or perhaps a bit more, should be available by this route, and I understand there may be some other ways in which ECGD would be able to make modest amounts of additional short term credit available consistently



with their statutory and other obligations.

7. I am copying this minute to the other recipients of yours.

A handwritten signature in dark ink, appearing to be the initials "G.H." with a stylized flourish.

(G.H.)  
8 December 1982

Yugoslavia, Jan '80, Int Sil