

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
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29 November 1984

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GDM 4/11

Dear Charles

YUGOSLAVIA: RESCHEDULING

Following our discussion earlier this week about the record of the Prime Minister's meeting with Mr Dizdarevic on 7 November, you might like to see ... paragraph 6 of the attached record by Peter Mountfield of his meeting in Geneva on 26 November.

I am also sending a copy to Len Appleyard.

Yours ever
David

D L C PERETZ
Principal Private Secretary

*ppro tonight pl*From: P MOUNTFIELD
Date: 27 November 1984

MR LITTLER

cc
Mr Unwin
Mr Lavelle
Mrs Case or
Mr Edelshain
Mr Towers
PS/CHANCELLOR

YUGOSLAV DEBT: GENEVA MEETING, 26 NOVEMBER

12/2

Yesterday's meeting passed off very smoothly. There were clear signals (though no positive confirmation) that Yugoslavia has now decided to sign an SBA with the Fund for 1985. On the strength of that, the Paris Group can reschedule official debt.

2. Minister Klemencic continued to press for a MYRA. He said he knew (from bilateral discussions in capitals) that a block rescheduling was out; but that a serial rescheduling was possible, provided there were adequate linkage with a Fund programme. He also understood that something stronger than the Mexican provisions would be required. He therefore proposed a new gimmick. There would be strengthened Article IV consultation, based on a single performance criterion: probably the trade account or the current account. This would be derived from the Yugoslav's own medium term recovery plan. If performance fell below this criterion, then Yugoslavia would itself wish to seek a further SBA. This would be the creditors' guarantee of good behaviour. In a brief question session, I tried to probe this, but got no further elucidations. I think he means that the conditionality which the Fund would impose, upon a reapplication of this kind, would be enough to ensure that the creditors' money was safe. On this basis, he hoped to get a serial rescheduling deal each successive stage

of which would be contingent on continued observance of the single performance criterion. I doubt if this would be good enough: and in any case, the other creditors were not prepared to contemplate any form of serial rescheduling.

3. We ended up with a "Chairman's summing up" which was released to the press at the end of the meeting. I attach the text. The two key sentences are in paragraph 3. This notes that "a partial consolidation of Yugoslavia's external debt may still be necessary for several years" - ie, we are not doing a limited one-off 1985 operation. We go on to express willingness "to remain involved in this process". But we then say that the debt consolidation group will meet "to work out the initial stage of the debt restructuring". Over lunch, the German and American delegates joined me in emphasising that this meant 1985 only. And as you will see, this is contingent on an agreement with the IMF.

4. The next move will be a report back to the Federal Assembly, after which the Yugoslav Government hopes to announce its decision on a SBA. The "Debt Consolidation Group" (ie the Paris Club under another name) will meet, either just before Christmas, in the course of regularly scheduled meeting, or in January.

5. Behind the scenes, I discussed with the Americans their draft text for such a meeting. I have sent the draft to Mr Edelshain. The key points are:

- a. It is firmly set in the context of a multi-year recovery plan;
- b. The operational bits relate to 1985 only, and are contingent on an agreement with the Fund;
- c. It contains a goodwill clause, under which the creditors would agree to reschedule 1986 and 1987

maturities (though not 1988 as requested) provided the present programme is implemented, and that Yugoslavia "continues to have an arrangement with the IMF after 1985" - the precise definition of that arrangement is in square brackets and remains to be negotiated.

6. During the meeting the American representative told me that the Yugoslavs assured her the UK supported MYRA. This may reflect the possible misunderstanding with the Prime Minister during the Dezdarivic visit. After lunch, with the draft communique safely agreed - and at the request of the Swiss chairman - I took Klemencic aside and told him firmly that there was no chance of a MYRA. He should not ask in Paris for more than the creditors could accept. I made it clear that the UK was solid with the others on the point. I shall follow this with their representative in London.

R₁

P MOUNTFIELD

Geneva, November 26, 1984

Final version

1620.

Chairman's Summing Up

1. Representatives of Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Italy, Japan, Kuwait, Switzerland, the Netherlands, Norway, Sweden, the United Kingdom, and the United States met with representatives of Yugoslavia in Geneva on November 26, 1984 under the chairmanship of State Secretary E. Brunner of Switzerland. The Yugoslav delegation was led by Mr. Vlado Klemencic, Member of the Federal Executive Council and Federal Secretary for Finance. Representatives of the International Monetary Fund, the World Bank and the Commission of the European Communities also attended the meeting.

2. Cooperating governments noted positively the results achieved by the Yugoslav Government in implementing their adjustment measures in the framework of their ongoing stabilization program, ~~which has been supported by stand-by arrangements with the International Monetary Fund.~~ In particular, they noted that the improvement in the current account of the balance of payments in 1983, and thus far in 1984, seems to have been achieved on a more sustainable basis than that in the preceding period, which had concentrated on a shakeout of imports. The trimming of imports was made sustainable in part by a more efficient use of resources made possible by a reduction of personal consumption, public expenditures and non-productive investment. They welcomed the

positive prospects for 1985 and beyond, signaled by the increase in the export market shares in the convertible currency area and underpinned by basic adjustments in the internal economy, particularly in the areas of pricing of commodities, money and foreign exchange. Participants emphasized the need for stability and continuity of current policy trends and policy implementation in the coming years. Continued cooperation and association with the International Monetary Fund was seen as a necessary ingredient in the medium-term strategy of the authorities.

3. Despite the positive results achieved in recent years, participants noted that, in the effort of achieving full normalization of external liquidity flows, a partial consolidation of Yugoslavia's external debt may still be necessary for several years. They expressed willingness to remain involved in this process within the context of the Yugoslav medium-term program supported by the IMF. They stood ready to convene the "debt consolidation Group" to work out the initial stage of the debt restructuring which will come into effect when a satisfactory arrangement has been reached between Yugoslavia and the International Monetary Fund.

4. Cooperating governments noted the progress made in and welcomed the current efforts to reach a multi-year arrangement between commercial banks and Yugoslavia. Participants further welcomed the preparedness of the World Bank and other multilateral organizations to continue to strengthen the flow of voluntary financing into Yugoslavia through co-financing arrangements. They noted with

satisfaction the re-emergence of voluntary credit flows to Yugoslavia and the efforts--partly through the new Law on Foreign Investment--made by the Yugoslav authorities to attract foreign non-debt capital.

5. They thanked the Swiss authorities for providing the Chair to these meetings and for their hospitality to the Group.

29 NOV 1984

