

010

Yugoslavia

(2)



Prime Minister

A.S.C. 7/12

FCS/82/204

CHANCELLOR OF THE EXCHEQUER

M

Yugoslavia: Economic Crisis

1. At our meeting yesterday we touched on the outcome of the meeting in Paris on 2 December of officials of Yugoslavia's five main Western creditors at which the Americans put forward their proposal for a special assistance package to help Yugoslavia overcome its acute liquidity problem in the first half of 1983. I enclose for ease of reference a copy of the reporting telegram. The problem is on the agenda for discussion at the traditional Berlin meeting of the French, Germans, Americans and ourselves before the NATO Ministerial Meeting on 9 December. I expect to come under heavy pressure from George Shultz to take part in this operation. I also understand that Yugoslavia is on the agenda of a meeting you will be attending on 9 December with the Finance Ministers of some of our closest allies.

2. As you know, the next meeting of officials of the five countries will be in Paris on 14 December. I consider it important that at that meeting we should be able to play a positive part in any conclusions that might be reached about how to assist Yugoslavia.

3. I do not underestimate the difficulties involved. But in my view there are three reasons why we should be prepared to provide some extra assistance for Yugoslavia:

- a. the Yugoslavs have publicly set their faces against rescheduling. They will take time to be brought round to the view that this should comprise an element, even a major one, of any package that might be offered them;
- b. if while we are discussing the matter among ourselves, or with the Yugoslavs, the Commercial banks call in their

/short



short term deposits (currently about \$1.6 billion) the problem, both financially and politically will become a great deal more difficult to manage;

- c. if, on 14 December, we are the only country not prepared to do anything over and above debt relief for Yugoslavia, I would expect this to get back to the Yugoslavs very quickly with serious short term and long term economic and political effects on our interests.
4. The sort of package I have in mind would contain, as an essential pre-requisite, a tight IMF programme together with an element of debt relief and some special assistance, in whatever form. I hope that our officials can work urgently on a position on these lines in preparation for the 14 December meeting. My officials will have some specific ideas to put forward on the question of the form our special assistance contribution might take.
5. I am sending copies of this minute to the Prime Minister, the Secretary of State for Trade, the Governor of the Bank of England and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'FP', written in a cursive style.

(FRANCIS PYM)

Foreign and Commonwealth Office
7 December 1982