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RECORD OF A CONVERSATION AT NO 11 AT 9AM ON 5 JANUARY ON
ECONOMIC ASSISTANCE TO YUGOSLAVIA

Present:	Chancellor	Secretary of State FCO
	Governor	Secretary of State DOT
	Mr Littler	Mr J C Thomas FCO
	Mr Loehnis	
	Mr Carey	

Mr Pym described the political and commercial case for a substantial UK contribution to the programme of assistance to Yugoslavia which would be discussed at the meeting of the Western Creditors Group on 6/7 January in Berne, and at the meeting of Central Bank Governors in Basle on 10/11 January. He suggested that an appropriate UK contribution to the programme for discussion at Berne would entail increasing the level of medium term commercial credit on offer from \$65 to \$110 million, while maintaining our offer to refinance \$65 million of UK Government-backed maturities falling due in 1983, and to allow some \$25 million new short term credit in 1983. An appropriate UK share of the proposed \$500 million BIS loan which would be discussed at Basle might be \$50 million.

2. Lord Cockfield pointed out that ECGD credit must be linked to particular exports, and drew attention to the risk that the provision of free foreign exchange, or re-financing, would mean that other creditors were repaid. He was nevertheless prepared to agree that \$120 million of medium term commercial credit already in the pipeline for 1983 should stand; that our offer to re-finance the \$65 million falling due in 1983 should also be maintained; and that we should continue to extend short term credit up to a ceiling of \$25 million at any one time (which would in fact mean a "turnover" of \$50 million in 1983.)



3. The Governor said that there had as yet been no discussion of the appropriate UK share in any BIS bridging loan, and the destination which the bridge was intended to reach was as yet unclear. He had as yet seen no authentic forecast of the Yugoslav balance of payments for 1983. He envisaged that Central Bank Governors would have considerable difficulty in agreeing to a substantial loan: any Bank of England participation would certainly require a Government guarantee. If, having been satisfied by evidence of a clear programme and rationale, BIS agreed a loan, and for \$500 million, the Americans would have to carry at least \$100 million, and the UK share might be of the order of \$60/80 million.

4. The Governor and the Chancellor cautioned that the programme under discussion in Berne seemed unlikely to make much real contribution to the resolution of the Yugoslav problem. New foreign credit was not Yugoslavia's prime requirement: what she needed was financing. The IMF talked of a package of \$1, or preferably 1.5 billion, of which at least 2/3rds would have to be financial, not credit, assistance.

5. The Chancellor however pointed out that the UK offer of \$65 million re-financing put us ahead of the rest of the western pack, except perhaps for the Swiss and the Austrians. And it was noted that the bids recorded in paragraph 4 of Mr Pym's minute of 31 December had been more than met by Lord Cockfield's response. Officials thought it possible that at the Berne meeting there might be some reluctance to score our \$120 million medium term commercial credit as a contribution to the proposed package, since it would not represent any new commitment. But there would nevertheless be considerable difficulty about any proposition that ECGD should be asked further to increase their potential exposure, and to offer credit unrelated to specific contracts being sought.

6. Mr Pym enquired whether the Government would be able to offer the guarantee which would apparently be necessary if the Bank were to



participate in any BIS loan. The Chancellor explained that, not least because it would be necessary to inform Parliament of any such guarantee, he would need, with the Governor, to be satisfied that the Yugoslavs had in fact embarked on a credible adjustment programme which offered a real chance of a solution to their current problems.

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6.1.83.

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