

Yugoslavia

PRIME MINISTER

Yugoslavia: Economic Crisis

You saw today the attached minute by the Foreign Secretary about our loans to Yugoslavia and the proposed announcement on 9 February. You commented that we should be rightly criticised because the loans are untied.

Could I ask whether you wish me to make this point to the Ministers concerned? The Chancellor of the Exchequer is content with the proposals, as is the Foreign and Commonwealth Secretary.

A.S.C.

8 February, 1983

Plus il y a des lettres -
- but we shall still
be criticised, and rightly
not
T. M. 1983



From the Secretary of State

N.S.P.N.

CONFIDENTIAL

Roger Bone Esq
Private Secretary to the
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London
SW1A 2AL

RR 8
/ 2.

8 February 1983

Dear Roger,

YUGOSLAVIA: ECONOMIC CRISIS

My Secretary of State has seen the Foreign Secretary's 7 February minute to the Chancellor of the Exchequer, with its proposed announcement about economic assistance for Yugoslavia. This is to confirm that my Secretary of State is content with the terms of the proposal, and its announcement in the way suggested.

Copies go to the Private Secretaries to the Prime Minister, the Chancellor of the Exchequer, the Governor and to Sir Robert Armstrong.

Yours sincerely,

JOHN RHODES
Private Secretary

CONFIDENTIAL

Yugoslavia: Jan 80: Internal
Situation

20 FEB 1980





FCS/83/27

CHANCELLOR OF THE EXCHEQUER

I note the loans are unsecured - uncollateralised - U.S. Government - The FCS describe how the details of our agreed pledge of £75m. to Yugoslavia should be handled - and propose an announcement by written answer on 9 Feb. A.S.C. 2

shall be published and rightly so.

Yugoslavia: Economic Crisis

Copy: W.R.

1. You will have seen the outcome of the inter-Governmental Creditors' meeting in Berne (Berne telegram Nos 23 and 24). Our total pledge of £78 million was entered in the MOU, subject to fulfilment of certain conditions. Although these conditions have not yet been fully met, I believe nevertheless that we must proceed on the assumption that they will be, or risk missing the boat with our own budgetary and Parliamentary procedures, which need to be initiated next week.

2. The present position over our conditions is as follows. The IMF will circulate their programme for 1983 on about 7 February, for agreement by the IMF Board by the end of the month. It is hoped that it will be possible to reach agreement on the BIS pre-financing loan which will be discussed in Basle on 7/8 February. The commercial banks are giving detailed consideration to the proposals for maintenance and some increase in their lending, with a view to decisions by 21 February. And widespread participation on the inter-Governmental element is secure.

3. As regards the component parts of our own contribution, I understand that arrangements are in hand over the £65 million/ £40 million of loans to be guaranteed by ECGD to refinance officially backed Yugoslav commercial debts falling due in 1983.



4. There are two issues affecting the remaining £60 million/£38 million of new financial credit:
- a. how a proportion of it should cover the Bank of England's expected \$30 million share of the BIS bridging loan;
 - b. whether some or all of the money should be tied to UK exports.

On (a)

5. I understand that the Bank of England are discussing with the BIS the way in which the UK's financial credits can be used to secure the Bank in respect of its participation in the loan. Gordon Richardson will no doubt let us know the outcome.

On (b)

6. I believe that we should stick to the position arrived at before the pledging meeting and not make the contribution conditional on a link with Yugoslav purchase of UK goods for the following reasons:

- a. We are offering less in volume terms than the US, French, Germans and Italians. In order to compensate, we need to maintain quality;
- b. untied financial credits are best suited to meeting Yugoslavia's own needs;
- c. there is already an imbalance in our favour of bilateral trade with Yugoslavia which is presenting problems;

/d.



- d. it would be difficult, as you pointed out in your letter of 14 January, to enforce conditions in circumstances where disbursement has to occur before the end of this financial year and checks could therefore be only after the event on whether the Yugoslavs had actually purchased British goods;
- e. should failure to link this to exports be criticised in public or Parliament, on the grounds that our money might be used to pay other countries' debts, it would be possible to point to the fact that eight other countries are giving financial assistance (including US, Germany and France - provided the French implement their commitment in principle), with five (Switzerland, Austria, Sweden, Netherlands and Norway) giving untied credits like ourselves.

7. As regards the Parliamentary and financial procedures I would propose to proceed as follows. Our contribution to the assistance package would be made public through Written Answer along the lines of the attached text. I hope that this can appear by 9 February before the spring Supplementary Estimates are released to the Parliamentary Committees on 10 February. I have already taken provisional steps to include the loan for Yugoslavia in the spring Supplementary Estimates as a charge to the 1982/83 Contingency Reserve. I understand that, subject to the examination by the Parliamentary Committees, the

/funds



funds should be voted by the middle of March. We should by then be able to check that all the other integral parts of this complex operation are assured. This would open the way for a rapid negotiation with the Yugoslavs to agree with them the precise terms and conditions (non-concessionary) of the loan so that disbursement could occur, as you have suggested, within the current financial year rather than in 1983/84.

8. I hope that you and Arthur Cockfield are content with this procedure and timetable.

9. I am sending copies of this minute to the Prime Minister, Secretary of State, for Trade, Governor of the Bank of England and to 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 February 1983