

File

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1 December 1983

YUGOSLAVIA

The Prime Minister has noted the contents of your letter of 25 November.

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Miss Judith Simpson,  
H.M. Treasury.

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Prime MinisterA.J.C.  $\frac{20}{11}$ 

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

25 November 1983

A J Coles Esq  
10 Downing Street

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Dear John,

## YUGOSLAVIA

Spoke?

Following the Prime Minister's meeting with Madame Planinc last week, you asked me to explain the insistence, in the briefing, that the only possible route for aid to Yugoslavia was the multilateral one.

The line was agreed between the Treasury and the FCO. In fact, we are reasonably satisfied that Yugoslavia's need for further assistance in 1984 is much less than in 1983. The Yugoslav administration, despite the difficulties of its federal structure, have made enormous progress towards turning round the economy, and eliminating the balance of payments deficit. Admittedly, there is a long way to go. But the 'gap' in the Yugoslav balance of payments for next year seems to us likely to be much smaller than the IMF have suggested (they have put it at \$3.3 billion) and indeed the Yugoslavs themselves think the IMF have overdone it. In particular, the IMF suggested a build up of Yugoslav reserves of some \$1 billion, which the Yugoslavs think an unjustifiable luxury at this stage.

We are therefore fairly confident that a rescheduling operation, together with an IMF programme, some new bank money, and credits which we know are already on offer from other governments, will be enough to do the trick. We do not exclude the need for a possible small-scale UK contribution. But there is still £113 million of UK export credit, available "in the pipeline" from previous agreements, which can be drawn in 1984; and we are still on short-term cover. UK representatives took this line at a meeting in Geneva last week under Swiss auspices, between the creditor govern-

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ments and a Yugoslavian team. We came under no great pressure, for the French and Germans took a very similar line. We are all partners in a new EIB loan to Yugoslavia.

If at a later stage, we were to become uncomfortably isolated, it might become necessary to offer some further small-scale bilateral assistance, preferably in the form of additional short-term cover (which minimises the risk to ECGD). But we do not at present see the need for further medium or long term cover. I understand that FCO, DTI and ECGD share this view.

*Yours sincerely,*

*Christie Simpson*

MISS J C SIMPSON  
Private Secretary

Yugoslavian  
Visit of Marine  
Mrs. Marine  
June 82

29 NOV 1985

