

10 DOWNING STREET

From the Private Secretary

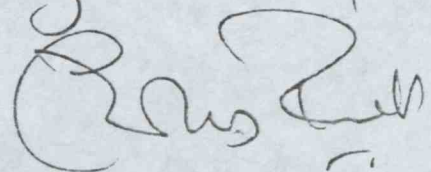
7 November 1984

Dear Colin,

PRIME MINISTER'S MEETING WITH MR. RAIF DIZDAREVIC

I enclose a record of the Prime Minister's conversation with the Yugoslav Foreign Minister, Mr. Raif Dizdarevic, at 10 Downing Street this morning.

I am copying this letter and enclosure to David Peretz (HM Treasury), Richard Mottram (MOD) and Callum McCarthy (Trade and Industry).

Yours sincerely


(C.D. POWELL)

C.R. Budd, Esq.,
Foreign and Commonwealth Office.

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SUBJECT.
CC MASTER

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE
YUGOSLAV FOREIGN MINISTER, MR. DIZDAREVIC,
ON WEDNESDAY 7 NOVEMBER AT 10 DOWNING STREET AT 0930 HOURS

Present

The Prime Minister
HM Ambassador, Belgrade
Mr. Powell

Mr. Raif Dizdarevic
The Yugoslav Ambassador

The Prime Minister welcomed Mr. Dizdarevic on his first visit to Britain. She had always greatly enjoyed her visits to Yugoslavia. Its people had enormous talents and history had given them a great incentive to strive for unity. The Prime Minister recalled in particular her visit in the company of Lord Maclean who had, of course, been a great friend of President Tito. The Prime Minister continued that she had seen Mrs. Planinc briefly in New Delhi where both of them had been attending Mrs. Gandhi's funeral. She was sorry it had not been possible to have a proper discussion.

The Prime Minister said she looked forward to hearing from Mr. Dizdarevic about the current situation in Yugoslavia. She was aware of the economic difficulties and the need for a new agreement with the International Monetary Fund. We knew from our own experience in Britain of the difficulties such agreements could cause.

Mr. Dizdarevic thanked the Prime Minister for receiving him and conveyed warm greetings from Mrs. Planinc who had been greatly touched by the Prime Minister's cordial greeting in New Delhi. Mrs. Planinc had asked him to remind the Prime Minister of the invitation already extended to her to visit Yugoslavia.

Mr. Dizdarevic continued that he wanted to raise two matters: the state of the Yugoslav economy and the rescheduling of Yugoslavia's debts. On the first, he believed that the worst was over and that this year was seeing a gradual restoration of economic stability. There had been an increase this year in internal demand of 5 per cent. GDP was up by 2 per cent and agricultural production also by 2 per cent. There was an increased inflow of foreign exchange which had been achieved by increasing exports. Over the past nine months, Yugoslavia had achieved a small balance of payments surplus. By the end of the year this should amount to some US \$700/800 million. The Prime Minister said that the Yugoslav Government must surely be very pleased by this. Mr. Dizdarevic said it was a considerable turn-around. In 1979 the deficit on payments had been \$3.7 billion. He continued that foreign currency reserves had risen and Yugoslavia had met its external payments. But there were three major problems remaining: a considerable fall in personal income in real terms over the past three years, amounting to something over 30 per cent; a high inflation rate; and unemployment which, while not as high as in the UK, was none the less serious. The Yugoslav Government's objective for the next year would be to continue to revitalise the economy with particular attention to achieving higher personal incomes and lower inflation. The Prime Minister commented that people were prepared to accept sacrifices as long as they were confident that there was a clear purpose and that one day they would reap the rewards. This appeared to be the case in Yugoslavia.

Mr. Dizdarevic continued that the other main aspect of the Government's programme was to improve its debt position in the period up to 1990. At present 45 per cent of foreign exchange was being used for debt servicing. The plan was to reduce this to 25 per cent. As part of its strategy, Yugoslavia would be seeking a multi year rescheduling

arrangement to cover its debts for the period 1985-88. They wanted this rescheduling for a period of twelve years with a grace period of five years. The United Kingdom and other creditor countries had already been asked to help with this. The Prime Minister said that she was glad to hear that the Yugoslav Government had a firm programme. She enquired whether agreement with the IMF was near. That was crucial. Mr. Dizdarevic said that talks with the IMF would start on 20 November. Yugoslavia intended to continue to cooperate with the IMF but considered that certain of the conditions previously imposed should be relaxed. Yugoslavia was highly appreciative of the support so far received from the UK and hoped that we would continue to assist their efforts to achieve a multi year rescheduling arrangement. It was not just a financial question but an important political matter. The Prime Minister said that she well understood how important it was but had to repeat that agreement with the IMF was crucial. She acknowledged that the IMF set tough terms but there was a margin within which one could negotiate. She was impressed with the courage which the Yugoslav Government was showing in tackling its very difficult economic problems. In the light of this and of the political considerations which Mr. Dizdarevic had mentioned, Britain would in principle be ready to help over rescheduling, subject to a satisfactory agreement being reached with the IMF.

The Prime Minister said that she would like to raise the subject of East/West relations. She thought that it would probably be several months after the Presidential elections before the new US Administration was ready for talks with the Soviet Union, but she was sure that they would seek them. It was important for other countries to continue their political contacts in the meantime to help create a favourable atmosphere. It was for this reason that Britain was anxious to establish closer relations with a number of East European

countries, though this had to be handled sensitively so as not to embarrass them in their own relations with the Soviet Union. She found that one of her main difficulties in these contacts was to persuade East European countries that the United States was sincere in seeking reductions in armaments, as was the United Kingdom. The Prime Minister asked how Mr. Dizdarevic saw the prospects.

Mr. Dizdarevic said that he thought that a mutual readiness for contacts existed on the part of both the Soviet Union and the United States. This had been manifested in Mr. Gromyko's various meetings during his visit to the United States and the subsequent talk between Mr. Shultz and Mr. Tikhonov in Delhi. He therefore agreed with the Prime Minister's assessment. He had noticed that the United Kingdom had recently had a number of contacts with East European Governments. He and Sir Geoffrey Howe had discussed this point the day before. The Prime Minister commented that Britain and Yugoslavia were both in a special position as countries which could contribute to a more favourable atmosphere and to reducing mistrust. It would be important to seek early progress in some of the disarmament negotiations, for instance the CDE in Stockholm. Mr. Dizdarevic said that Yugoslavia was very active in the neutral and non-aligned group at Stockholm. The Prime Minister commented that the Soviet Union had not hitherto been very forthcoming there. Perhaps they were awaiting the results of the US elections.

As he was leaving, Mr. Dizdarevic repeated the Yugoslav Government's invitation to the Prime Minister to pay an early visit to their country.

The meeting ended at 1005.