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Rika Minister  
You will want to  
be aware of the  
very reticent  
line which we  
are taking.

Lyn

Mr

#### MEETING WITH YUGOSLAV FINANCE MINISTER

The Yugoslav Finance Minister, Mr Rikanovic, called on the Chancellor today. He was accompanied by the Yugoslav Ambassador, Mr Calovski, the Minister-Counsellor (Economic) at the Yugoslav Embassy, Mr Mitic, and an interpreter. Mr Lankester and Mr Bottrill (both Treasury) were also present.

Rikanovic recalled his last meeting with the Chancellor, on 19 October 1987. He had then discussed with the Chancellor the measures to be undertaken by Yugoslavia to secure a standby arrangement with the IMF. At that stage, neither side had a clear view as to how matters would turn out. Now Yugoslavia was on the eve of a high quality standby arrangement with the Fund, matched by an agreed high quality internal programme. He was conscious that Yugoslavia's creditors lacked confidence in its ability to achieve the objectives of the programme. This was unsurprising, given the recent decade of economic crisis in Yugoslavia. But Yugoslavia was encouraged by the United Kingdom's positive attitude. Fresh money was needed, and quickly!

The Chancellor said he was very glad indeed that Yugoslavia had been able to conclude an agreement with the IMF. He also admired the courage shown by the Yugoslav government in being prepared to undertake these difficult, though necessary, measures. But, to be frank, we did have doubts about Yugoslavia's ability to achieve the objectives set. These were based not only on Yugoslavia's economic record, but also on the additional difficulties imposed by the complications of the federal constitution. We understood Yugoslavia's need for more money: this pointed to an agreed rescheduling of debts in the Paris Club framework. The UK would contribute to a consensual agreement here. We would consider carefully what could be done. It was, however, difficult to think of ways in which it would be right to implement special arrangements for Yugoslavia.

CGP  
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Rikanovic said that Yugoslavia was on the eve of major, radical reforms. Constitutional changes were envisaged which would lead to a greater market orientation in the economy. The government had also set up a task force to promote the independence of enterprises in the market. In order to develop in this direction, the Yugoslav economy needed adequate support. Free price formation was required, which meant a liberalised import regime. But this, in turn, meant that additional support for Yugoslavia's foreign exchange reserves was required. It would be most undesirable to implement the new programme, only to have to halt it after a few months.

The Chancellor said he understood exactly what Rikanovic was saying. He asked Rikanovic about the forthcoming constitutional changes in Yugoslavia. Rikanovic said that there would be some reorganisation of the machinery of government. Three Ministries would be abolished, and two new Ministries set up. But there would be no essential changes. The Chancellor asked Rikhanovic whether he expected to remain Finance Minister. He hoped that he would. Rikanovic said that the Yugoslav Prime Minister had made no indication that he wished to give Rikanovic a new portfolio.

Rikanovic said that Yugoslavia wanted Germany to co-ordinate the activities of Yugoslavia's creditors. He knew that Kohl had recently written to his EC colleagues. Yugoslavia had agreed with the IMF that its programme could begin if the \$800 million financing gap for 1988 could be filled. The commercial banks had offered \$300 million this year, and \$200 million next year. So a further \$500 million in 1988 was now required from Governments.

The Chancellor said that the Prime Minister had indeed received a letter from Chancellor Kohl. We were considering our response but he had to say that we would have great difficulty in doing anything outside the normal Paris Club or BIS fora.

Rikanovic said that the Yugoslav Central Bank Governor had discussed the possibility of a bridging loan with his colleagues in Basle. The Chancellor said that we did understand the Yugoslav position, and would look at the options sympathetically in consultation with our colleagues in other creditor countries.

Rikanovic said that quick decisions were required, if the introduction of Yugoslavia's new economic measures was not to be postponed. The IMF Executive Board meeting to consider the standby arrangement would take place on 13 May. The Chancellor said he was not sure whether the IMF Executive Board itself would be able to meet this deadline. We recognised that early decisions were required. He could say nothing further at this meeting.



I am copying this letter to Charles Powell (No.10) and John Footman (Bank).

*Yours truly*

*J M G Taylor*

**J M G TAYLOR**  
Private Secretary