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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

31 May 1988

Dear Alex,

YUGOSLAVIA: BIS BRIDGING LOAN

Thank you for your letter of 27 May about the Chancellor's intention to present a Command Paper on 1 June (or shortly thereafter) on the proposed indemnity to the Bank of England covering their commitment to the BIS in respect of a loan to Yugoslavia. The Prime Minister is content with this.

I am copying this letter to the Private Secretaries to the Foreign Secretary, the Lord President, the Lord Privy Seal, the Chief Whips in the Commons and the Lords and the Governor of the Bank of England.

Yours sincerely,

Charles Powell

A.C.S. Allan, Esq.,
HM Treasury.



Rie Minister
Content?

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

27 May 1988

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30/5

C D Powell Esq
10 Downing Street
LONDON
SW1

Yes

Dear Charles

YUGOSLAVIA: BIS BRIDGING LOAN

The Prime Minister confirmed to Chancellor Kohl in her letter of 9 May that the Bank of England is prepared to participate in a bridging loan which the Bank for International Settlements is seeking to arrange in support of a Yugoslav IMF programme.

Implementation of the BIS loan has been delayed by problems with a parallel United States loan since central banks participating in the BIS operation have said they will not proceed without the US. On the assumption that the US difficulties are overcome, however, the BIS loan could be finalised in Basle early next week which would clear the way for an IMF Board meeting perhaps almost immediately. The loan is intended to support the dinar during the first months of economic reform. Drawings on it will become available once the IMF Board approves a Stand By Arrangement for Yugoslavia in principle. Drawings on the IMF itself will become available once all the financing elements for the programme are in place - including contributions from the commercial banks.

The bridging loan is for \$250 million, of which \$50 million is from the US and \$200 million from other Central Banks. Of this \$30 million is from the Bank of England. The facility terminates on 30 November 1988 and will be repaid by drawings on the IMF Stand By Arrangement.

The Chancellor has authorised the Bank of England to take part in the operation. The Treasury will give the Bank an indemnity on lines similar to that given in 1986 for Mexico.

Under the terms of the International Monetary Arrangements Act 1983, we are required "immediately" after giving any undertaking under this section, to lay a statement of the undertaking before



each House of Parliament". Since Parliament will be in recess, this will take the form of a Command Paper.

... The Chancellor proposes to do this on Wednesday or as soon after that as the BIS loan is announced. I attach a draft. I should be glad to hear that the Prime Minister sees no objection. Our view is that the operation will be uncontroversial and is unlikely to provoke much comment in Parliament.

The FCO will send appropriate briefing to Belgrade and other concerned posts. Press Officers at the Treasury, FCO and Bank will have Question and Answer briefing.

As a matter of courtesy, we shall notify the Public Accounts Committee and the Treasury and Civil Service Select Committee.

I am copying this letter to the Private Secretaries to the Foreign Secretary, the Lord President, the Lord Privy Seal, the Chief Whips in the Commons and the Lords, the Governor of the Bank of England, and to Bernard Ingham.

Yours sincerely

J M G TAYLOR

INDEMNITY TO THE BANK OF ENGLAND
COVERING THEIR COMMITMENT TO
THE BANK FOR INTERNATIONAL SETTLEMENTS
IN RESPECT OF A LOAN TO YUGOSLAVIA

Presented to Parliament
by the Chancellor of the Exchequer
by Command of Her Majesty
[] June 1988

LONDON
HER MAJESTY'S TREASURY

Not to be Printed

INDEMNITY TO THE BANK OF ENGLAND COVERING THEIR COMMITMENT TO
THE BANK FOR INTERNATIONAL SETTLEMENTS IN RESPECT OF A LOAN TO
YUGOSLAVIA

Section 2(1) of the International Monetary Arrangements Act 1983 empowers the Treasury to undertake to indemnify the Bank of England in respect of financial assistance given by the Bank to the central bank or other monetary authority of a foreign country, in co-operation with the Bank for International Settlements or any central bank or other monetary authority. Section 2(3) of the Act requires the Treasury to lay a statement of the undertaking before both Houses of Parliament immediately after giving the undertaking. This paper fulfils that requirement.

International assistance to Yugoslavia

2. The Yugoslav Government is seeking medium-term financial support through an application to the International Monetary Fund for a Stand-By Arrangement, in respect of which a Letter of Intent has been agreed; [through an application to the International Bank for Reconstruction and Development for a Structural Adjustment Loan] and through negotiation with commercial banks of many countries which have provided loans to Yugoslavia. In anticipation of such support, the National Bank of Yugoslavia sought short-term assistance from the Bank for International Settlements and the United States monetary authorities. The BIS facility will provide for \$200 million for a period ending on 30 November 1988. An additional facility for \$50 million will be provided by the United States. The BIS loan will be financed from its own resources, but it has a right of recourse to participating member central banks. The Bank of England's contingent liability under this arrangement is for a principal amount of \$30 million plus any unpaid accrued interest and costs. The Treasury has agreed to give the Bank an indemnity in respect of this contingent liability.

3. Any sums required to meet this indemnity would be charged on and issued out of the Consolidated Fund.

YUGOSLAVIA: Kelantan Jan 10

