

The Governor

LR

4/1

541/1

Add pps ide

The C/E's office have/83 just telephoned to say that there will be a meeting tomorrow at No 11, at 9.00am to discuss Yugoslavia. Those present will be: -

C/E

Cockfield (?+1)

Pynn (?+1)

⊕ Little

Caney

(MJB, PTB and ADL are available)

ADL 4/1/83



TOP COPY Yugoslavia doss

CONFIDENTIAL

5. 1.83

NOTE FOR RECORD

Copies to Mr M J Balfour  
Mr F L Hall  
Mr P J Bull  
Mr L F T Smith o/r  
GPS  
DGPS

## YUGOSLAVIA

The Governor and I attended a meeting at No 11 Downing Street this morning called by the Chancellor to consider the Foreign Secretary's note of 31 December. The Foreign Secretary was accompanied by Jeremy Thomas, the Chancellor by Littler, Carey and Kerr, and the Secretary of State for Trade by an adviser.

In response to the Foreign Secretary underlining the political implications of any failure to come up with a package to rescue the Yugoslavs, the Chancellor referred to problems he was likely to have with Parliament and the Select Committee if further public funds were committed to a package which seemed unlikely to succeed.

Lord Cockfield made two preliminary points: export credits could only be granted to finance UK exports, not to support UK banks or banks of other nationalities; and so far as he could see, the UK seemed to be the only government involved which was willing to reschedule 1983 maturities of government-guaranteed credit. Having said this, ECGD have looked again at the figures and the committed funds for 1983 were actually \$120 mn rather than the \$65 mn referred to in the Foreign Secretary's note.

It was generally agreed that this "additional" \$55 mn could hardly be dressed up as new money, although Cockfield appeared to remain unconvinced that it should not be considered as comparable to the US government's \$200 mn of commodity credits.

It was also agreed that it would be helpful if the other countries involved could be persuaded to roll over their 1983 maturities of



government-guaranteed debt. ADL pointed out that this should produce some \$400-500 mn of "new money", although there was a risk that the Yugoslavs would turn it down because it would mean rescheduling.

The Governor said the real problem was that the Yugoslavs needed medium-term untied finance, which no government was prepared to put up because it would involve actual budgetary expenditure.

All of the foregoing lamentable and obvious discussion took up so much time that the Foreign Secretary's request for an additional \$45 mn of ECGD medium-term credit was barely considered, but both Cockfield and the Chancellor made clear that they were not in favour.

The Governor briefly indicated that it might be very difficult to get the BIS to agree to a bridging loan, since the end of the bridge was not clear. Any Bank of England participation would certainly require a government guarantee. The Chancellor gave no indication that such a guarantee would be forthcoming, although he said that if the outcome of the BIS meeting was favourable the Governor would have to approach him about such a guarantee.

Altogether a very unsatisfactory and inconclusive meeting, from which the only new elements were:-

- (a) the increase in the amount of ECGD "pipeline" finance for 1983 from \$65 mn to \$120 mn; and
- (b) the thought that other countries should be urged to roll over their 1983 maturities.

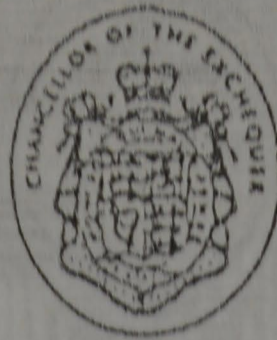
ADL

5 January 1983

ADL



3441  
cc: DG  
AOL  
MJB  
DCH  
RJB  
LTS.



RECORD OF A CONVERSATION AT NO 11 AT 9AM ON 5 JANUARY ON  
ECONOMIC ASSISTANCE TO YUGOSLAVIA

Present:	Chancellor	Secretary of State FCO
	Governor	Secretary of State DOT
	Mr Littler	Mr J C Thomas FCO
	Mr Loehnis	
	Mr Carey	

Mr Pym described the political and commercial case for a substantial UK contribution to the programme of assistance to Yugoslavia which would be discussed at the meeting of the Western Creditors Group on 6/7 January in Berne, and at the meeting of Central Bank Governors in Basle on 10/11 January. He suggested that an appropriate UK contribution to the programme for discussion at Berne would entail increasing the level of medium term commercial credit on offer from \$65 to \$110 million, while maintaining our offer to refinance \$65 million of UK Government-backed maturities falling due in 1983, and to allow some \$25 million new short term credit in 1983. An appropriate UK share of the proposed \$500 million BIS loan which would be discussed at Basle might be \$50 million.

2. Lord Cockfield pointed out that ECGD credit must be linked to particular exports, and drew attention to the risk that the provision of free foreign exchange, or re-financing, would mean that other creditors were repaid. He was nevertheless prepared to agree that \$120 million of medium term commercial credit already in the pipeline for 1983 should stand; that our offer to re-finance the \$65 million falling due in 1983 should also be maintained; and that we should continue to extend short term credit up to a ceiling of \$25 million at any one time (which would in fact mean a "turnover" of \$50 million in 1983.)





3. The Governor said that there had as yet been no discussion of the appropriate UK share in any BIS bridging loan, and the destination which the bridge was intended to reach was as yet unclear. He had as yet seen no authentic forecast of the Yugoslav balance of payments for 1983. He envisaged that Central Bank Governors would have considerable difficulty in agreeing to a substantial loan: any Bank of England participation would certainly require a Government guarantee. If, having been satisfied by evidence of a clear programme and rationale, BIS agreed a loan, and for \$500 million, the Americans would have to carry at least \$100 million, and the UK share might be of the order of \$60/80 million.

4. The Governor and the Chancellor cautioned that the programme under discussion in Berne seemed unlikely to make much real contribution to the resolution of the Yugoslav problem. New foreign credit was not Yugoslavia's prime requirement: what she needed was financing. The IMF talked of a package of \$1, or preferably 1.5 billion, of which at least 2/3rds would have to be financial, not credit, assistance.

5. The Chancellor however pointed out that the UK offer of \$65 million re-financing put us ahead of the rest of the western pack, except perhaps for the Swiss and the Austrians. And it was noted that the bids recorded in paragraph 4 of Mr Pym's minute of 31 December had been more than met by Lord Cockfield's response. Officials thought it possible that at the Berne meeting there might be some reluctance to score our \$120 million medium term commercial credit as a contribution to the proposed package, since it would not represent any new commitment. But there would nevertheless be considerable difficulty about any proposition that ECGD should be asked further to increase their potential exposure, and to offer credit unrelated to specific contracts being sought.

6. Mr Pym enquired whether the Government would be able to offer the guarantee which would apparently be necessary if the Bank were to



CONFIDENTIAL



participate in any BIS loan. The Chancellor explained that, not least because it would be necessary to inform Parliament of any such guarantee, he would need, with the Governor, to be satisfied that the Yugoslavs had in fact embarked on a credible adjustment programme which offered a real chance of a solution to their current problems.

*JOK*

J O KERR

6.1.83

Distribution:

Mr Coles - No 10  
Mr Fall - FCO  
Mr Rhodes - DOT  
PS/Governor - Bank of England  
Mr Hatfield - Cabinet Office

Chief Secretary  
Economic Secretary  
Sir Douglas Wass  
Mr Littler  
Mr Carey  
Mr Hawtin

CONFIDENTIAL