

TOP FILED WITHIN YUGOSLAVIA PPS - 10

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29.12.82

NOTE FOR RECORD

US 29/12

Copies to The Governor's Private Secretary
The Deputy Governor's
Private Secretary
Mr Loehnis
Mr M J Balfour o/r
Mr Holland
Mr L F T Smith o/r

YUGOSLAVIA

The Governor participated in a meeting at No 11 Downing Street late yesterday afternoon with the Chancellor, the Foreign Secretary and the Secretary of State for Trade [Broomfield (FCO), Carey (Treasury) and myself present]. The outcome was that Pym agreed at the suggestion of the Governor that he, Pym, should talk this afternoon to Shultz on the telephone and tell him that we were as concerned as he was about the political importance and seriousness of the Yugoslav situation but that on the basis of the latest information on Yugoslavia's balance of payments and prospective financing gap, and the contributions that governments seemed likely to be able to make as indicated at last Friday's meeting in Paris, we were doubtful whether the American approach would provide an adequate solution.

The Governor earlier pointed out that the most urgent need was for the IMF programme to be in place and for governments to see the balance of payments projections for 1983 and what it was necessary to do to solve the problem. The telegram sent by de Larosière on 3 November had suggested that Yugoslavia would need \$1.5 bn of new money, and since then the situation has worsened so that possibly \$2 bn or more might be needed now. We had heard that Yugoslavia would need \$600 mn in January alone, including \$300 mn to meet maturities and yet the total governmental support that the Americans were aiming at, as indicated in Belgrade Telno 234 of 22 December, suggested a maximum of \$900-\$950 mn. This did not add up to an adequate solution; and the Governor felt that it would be impossible to go to banks on the basis of such a proposition and ask them to put in new money. It was evident anyway that some of the proposed governmental contributions might not represent new money but simply credit already in the pipeline.

The Chancellor supported this approach, stressing that it was important that the Americans' approach should have a basis of realism. He said it had been agreed at the G5 meeting that realism would have to involve a degree of rescheduling by one route or another. There was some discussion of whether the UK's offer of \$65 mn (which Lord Cockfield preferred to call \$64 mn) to refinance some 90-95% of 1983 maturities of ECGD guaranteed medium-term debt could be increased to 100% refinance, and Cockfield raised, but did not advocate, the alternative possibility of a Ministerial directive being given to ECGD to provide an additional \$35 mn cover for commodity credit (which, with the \$65 mn refinance assistance, could be regarded as meeting the Americans' request for \$100 mn assistance from the UK). Cockfield said that this would be a peculiar way of dealing with the problem, and it would not solve it. He was concerned about increasing ECGD's exposure to finance exports to very dubious markets; and the Chancellor shared his concern and showed no willingness to agree to a Ministerial directive. He emphasised the importance of trying to get the Americans to adopt a realistic approach, and Pym concurred, saying that he would speak to Shultz this afternoon.

Broomfield threw in the suggestion that it might be tactically sensible to engage in bilateral talks with the Americans, if necessary going to Washington, but this would have to take place before the proposed second creditors meeting which the Swiss had been asked to convene during the week between Christmas and the New Year. The Governor supported the suggestion of a bilateral meeting, with discussions taking as their starting point de Larosière's message of 3 November and the subsequent IMF document of 10 November and account being taken also of the latest information received from Whittome, including what he had said to the Governor on the telephone recently during the Basle meeting. Political credit could be taken for the UK contribution already offered and the willingness to go to Washington to talk to the Americans to find a solution, but it seemed clear that the solution would have to be based on a combination of governmental assistance, IMF money and some rescheduling. Broomfield suggested it would be difficult to bring the Americans along to this point of view unless the proposed UK contribution could be increased. The Governor pointed out that the

Americans own contribution amounted to no more than \$200 mn commodity credit and the Chancellor agreed that it was not necessary to make any increase on the proposed \$65 mn. The right approach was to express our anxieties about the Yugoslav situation, our understanding of the political necessity for finding a solution and the need for the solution to be orderly, sound and not just an incoherent package of small additional loans "that could be thrown to the wolves".

This morning I attended a meeting with Broomfield and Carey at the FCO at which the attached speaking note for Pym was agreed (my manuscript suggestions being accepted by Broomfield).

The FCO are now trying to find out whether the Swiss have agreed to convene a creditors meeting: they have apparently shown some reluctance to do so and it is believed that the French have also made an approach to the Dutch. Broomfield saw some merit from a political viewpoint in the UK convening such a meeting if neither the Swiss nor the Dutch were prepared to do so. He thought this would ensure that the meeting was kept on the right track in a way which would not happen under either US or French chairmanship, and he thought this would secure the UK political kudos and offset the harmful effects of allegations that have been made in Belgrade and elsewhere that it is the UK that has been dragging its feet in attempts to find a solution to Yugoslavia's financial difficulties.

Broomfield will let me know later this afternoon the results of his enquiries and of the conversation Pym is to have with Shultz. Broomfield's belief is that it may well be necessary for UK officials to fly to Washington on Monday for talks with the State Department, and he would wish me to go, together with Carey and himself.

23 December 1982
P J Bull HO-3

HWB

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LINE TO TAKE WITH MR SHULTZ

1. Had a meeting yesterday with Chancellor of the Exchequer, Secretary for Trade and Governor of the Bank of England to discuss Yugoslavia.
2. All accepted the political importance and urgency of the problem. We are willing to help. But are not yet convinced we are on the right path.
3. My colleagues frankly doubt that the solution you are proposing, ^{namely} AN assistance package of \$1 billion medium term credit, will meet the problem. The gap looks like being at least \$1.5 billion, and probably bigger. Certainly over \$2 billion if the Yugoslavs try to build up their reserves.
4. Differences ~~between us~~ point up the difficulty of trying to assess what is needed before we see the IMF programme and latest figures on the Yugoslav economy. Hope these may be available before Christmas.
5. Both Chancellor and Governor convinced reshceduling will have to play a part in any overall package. Not convinced the banks will put up more money under present circumstances. Our own figures show up to mid 82 that UK owned banks slightly increased their lending. But others have clearly ~~pulled out~~.

reduced importance.

*Decid not
be called
this. Could
be presented
in various
ways to
prevent loss
of face.*

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DSR 11C

6. Will not carry my colleagues with me to improve our contribution, until I can convince them that the sort of operation ^{you} we have in mind is likely to succeed.

You

7. Realise time is very short. Suggest either our team come to Washington between Christmas and the New Year to go over the figures with your experts. Alternatively if another meeting of creditors is fixed in that week could your experts come a day earlier and stop off in London.