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UNDER SECRETARY OF STATE  
FOR ECONOMIC AFFAIRS  
WASHINGTON

October 4, 1965

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MEMORANDUM FOR MR. McGEORGE BUNDY  
THE WHITE HOUSE

Subject: Assistance to Support Yugoslav  
Economic Liberalization Program

My memorandum of July 22 stated that Yugoslavia is seeking financial assistance to support the liberalization of its economy in accordance with a plan worked out with the IMF. It has already obtained a standby from the IMF and has approached the United States and its European creditors for financial support in the form of new credits or rescheduling of existing debt. France, to whom Yugoslavia owes \$81 million including interest in the 1965-1968 period, has already given a new credit of \$12 million and will discuss the remainder of the request soon. Italy, to whom \$65.6 million including interest is owed in this period on an intergovernmental basis, has rescheduled \$15 million and will discuss the rest next month. They and other European creditors are interested in what the United States will do before taking further decisions.

The President has approved assistance to Yugoslavia in principle and asked that the interested agencies work out a specific package proposal to be submitted to him for his approval.

The specific Yugoslav requests and the responses contained in the proposed United States package to meet immediate Yugoslav needs are as follows:

A. Exim Bank

1. Yugoslav request

- (a) Favorable action on two pending loan applications (Diesel locomotives \$9.5 million and Pancevo Fertilizer Plant \$24.5 million).

(b) Renewal

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E.O. 12958, Sec. 3.5  
State Dept. Guidelines

By jc, NARA, Date 7-6-01

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- (b) Renewal of \$5 million annual export credit line.
- (c) New five year credits or guarantees totaling \$24 million between July 1965 and December 31, 1968 to finance raw materials and semi-fabricated goods.

2. U.S. response

- (a) Exim will extend the two loans requested.
- (b) Exim will renew the \$5 million annual export credit line.
- (c) Exim will not extend the new credits or guarantees but will postpone payments due it from Yugoslavia in 1965 totaling \$3.5 million.

B. P. L. 480

1. Yugoslav request

- (a) Liberalization of the terms of three existing P.L. 480 Title IV agreements as follows:
  - (1) Postponement of the initial payments on two 1964 three-year wheat agreements for one year and extending the repayment period on each of these agreements from three to 12 years.
  - (2) Extension of the grace period from six months to two years in the 12-year wheat agreement of March 16, 1965.
- (b) Liberal terms on new P.L. 480 Title IV sales agreements covering their FY 1966 program.

2. U.S.

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- 3 -

2. U.S. response

- (a) (1) The initial payments on the two 1964 three-year agreements will be postponed one year from FY 1966 to FY 1967. The repayment period will not be extended.
- (2) The grace period in the March 1965 agreement will not be extended.
- (b) A new Title IV sales agreement covering 700,000 tons of wheat will have a two-year grace period, nominal repayments of \$1.0 million a year in each of the next two years, with the remainder to be spread over the following 10 years; interest to be at 3 1/2 percent.

Of course, all of these proposals will have to go through the usual channels. These are the ISC, the NAC, and the P.L. 480 Advisory Committee on the P.L. 480 components and the NAC and the Bank's Board on the Exim elements.

Estimates of the benefits of this package to the Yugoslav balance of payments are shown in detail in the attached table. It would give immediate relief of \$17.4 million this year which Yugoslavia needs.

In United States FY 1967 and 1968 the benefit to the Yugoslav balance of payments is estimated at \$4.9 and \$7.6 million respectively. In FY 1969 it is estimated that there would be an adverse effect on the Yugoslav balance of payments of \$2.5 million.

It is desirable for the United States to give less at this time than the full amount of Yugoslavia's request for two reasons: (1) to permit us to assess the success of the Yugoslavs in carrying out their liberalization program and their actual future needs, and (2) to encourage the other creditor countries to do their full share. At the same time, the United States response should be sufficiently favorable to suggest a similar response by others. The present package attempts to achieve this balance.

Yugoslavia

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- 4 -

Yugoslavia will need additional P.L. 480 commodities in CY 1966 and at that time we can take another look at the adequacy of the United States contribution.

ACTION REQUESTED

It is requested that the President be asked to approve the package of assistance to support the Yugoslav economic liberalization program, as set forth in this memorandum and the attached table.

*Thomas C. Mann*  
Thomas C. Mann

Attachment:

Table showing proposed assistance to Yugoslavia.

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Benefit to Yugoslavia from Proposed Package  
(millions of U.S. dollars)

	<u>Value</u>	<u>FY 1966</u>	<u>FY 1967</u>	<u>FY 1968</u>	<u>FY 1969</u>
I. <u>P.L. 480</u>					
Base: 2 years grace 12 equal annual install- ments: 4% interest.					
		<u>Benefit Compared to Base</u>			
(a) 700,000 m.t. wheat	45.000				
Terms: 2 years grace, 2 years with payments of \$1 million each, remainder in 10 annual installments, 3-1/2% interest.					
Principal		--	--	2.750	2.750
Interest		--	.225	.225	.170
(b) Adding grace period to 2 three-year agreements					
Principal		8.900	--	--	8.900 (neg.)
Interest			.364(neg.)	.364(neg.)	.364 (neg.)
Total P.L. 480	45.000	8.900	.139(neg.)	2.611	6.344 (neg.)
II. <u>Exim Bank</u>					
		<u>Balance of Payments Benefit</u>			
a) Reschedulings		3.500	--	--	1.167 (neg.)
b) Guaranties		5.000	5.000	5.000	5.000
Total Exim Bank		8.500	5.000	5.000	3.833
III. Combined Total		17.400	4.861	7.611	2.511 (neg.)