



DEPARTMENT OF STATE

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MEMORANDUM FOR: Dr. Martin E. Abel
Deputy Assistant Secretary,
International Affairs
Department of Agriculture

Mr. John C. Colman
Deputy Assistant Secretary for
International Affairs
Department of the Treasury

Yugoslavia's P.L. 480 Debt

This paper proposes a partial rescheduling of the principal amounts Yugoslavia is due to pay the United States in 1968 and 1969. The amount rescheduled would be \$7.9 million in each year. In capsule, our reasoning is:

- The United States has a major stake in Yugoslav independence and in the success of Yugoslav efforts to reform and liberalize their society. The President has recently reemphasized this.
- Yugoslavia remains a Communist country--and as such has objectives which in many ways differ fundamentally from ours--but its internal reforms have not only improved the lot of Yugoslavs, they have acted as a powerful agent of change throughout Eastern Europe.
- The Soviet Union sees Yugoslav-type reform as a major threat to its position in Eastern Europe. It intervened in Czechoslovakia to reverse the liberalizing trend that sprang from such reforms. Recently the Soviets have mounted a propaganda effort to discredit the Yugoslav reform program. Soviet economic

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E.O. 12958, Sec. 3.5

State Dept. Guidelines

By jc/rq, NARA, Date 4-27-01

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and even military pressures on Belgrade are possibilities, although as yet we have no indication the USSR is moving in this direction.

- Yugoslavia appears determined to continue the reform program, even in the face of increased Soviet pressure. But at the same time it must increase its defense readiness: this will put an additional strain on its economy and balance of payments.
- To maintain the level of liberalization achieved and assure the eventual success of reform--while increasing military spending--Yugoslavia will need outside assistance, and has requested it.
- We expect Germany and Italy (Yugoslavia's other main trading partners) to make a substantial response to this request.
- The proposed P.L. 480 rescheduling is designed to iron out a bulge in debt payments to the United States. It would cover a third of the Yugoslav exchange gap in 1968 and contribute to the 1969 gap. Other actions under consideration are: new Exim credits and U.S. private investment and defense procurement partly on the basis of U.S.-owned dinars.

Details follow:

Yugoslavia's Economic Position

The invasion of Czechoslovakia has resulted in an increase in Yugoslavia's defense expenditures and at the same time raises serious added questions as to the future of its trade with the Soviet bloc. This trade is important to the economy since imports from the area are required to scale-down the Yugoslav favorable balances in clearing arrangements with this area (estimated between \$150-180 million) and several Yugoslav export industries (ship-building, rolling stock, footwear and ready-made clothing) are dependent on sales to East Europe. Moreover, the Yugoslav position vis-a-vis Western Europe and the U.S. is also less favorable. Its agricultural exports to the EC

countries are down because of the EC agricultural policy and there is a bulge in the amount of its repayments due the U.S. for purchases of agricultural commodities under P.L. 480 and CCC.

Chief elements in Yugoslavia's position are:

Balance of Payments

The most recent information from Belgrade indicates that since the attached IMF projection of the Yugoslav balance of payments for 1968 was made in May 1968 (Tab A) there has been a sharp deterioration in the prospects for the year, despite expected improvement in the current account. This will be due to increased debt repayments and a decline in the availability of foreign loans, particularly "financial credits." With medium and long-term credits expected to be \$140 million below 1967 and an increase in debt repayments estimated at \$50 million^{1/} it is expected that the convertible currency deficit will be \$190 million. While part of this gap can be covered by an improved current account (expected deficit of \$30 million as compared to 1967's deficit of \$125 million), an increase in short-term suppliers credits of \$60 million and \$10 million by "other means,"^{2/} a balance of \$25 million would remain to be covered by drawing on reserves or additional debt rescheduling.

Reserves

Gold and foreign exchange reserves of the National Bank, which are in any event considered low in relation to the volume of imports from the convertible area, vary widely throughout the year. After a low of \$80 million at the end of 1967 compared to \$115 million at the end of 1966, reserves were reported at \$114 million August 31, 1968 as compared to the previous year's total on the same date of \$122 million. (Tab B) Unless additional debt

1/ After account is taken of rescheduling by IMF (\$50 million gross, \$42 million net) and by the FRG of \$26 million in Hermes guarantees.

2/ Although not defined by Yugoslav National Bank officials, "other means" may mean extraction of \$10 million from foreign exchange balances held by commercial banks.

rescheduling can be obtained, there will be a serious deterioration in the reserve position in view of the expected results in the 1968 balance of payments.

Debt Repayment Profile

On the basis of the figures available which include some double counting of interest payments but do not include all supplier credits, Yugoslavia's payments due on its debt to the convertible currency area are as follows:

<u>Year</u>	<u>Amount</u> (millions of dollars)
1968	330.6
1969	345.5
1970	342.0

The breakdown of these totals is shown in Tab C.

Action by Other Countries

When the request for debt rescheduling was originally made by Yugoslavia's Deputy Prime Minister Kiro Gligorov during his recent visit to Washington, he was asked whether Yugoslavia would make similar approaches to its two main trading partners, the Federal Republic of Germany and Italy, since they also have heavy debt repayment obligations to these countries during the next few years. The Yugoslavs have made approaches recently to both countries and are encouraged by the response. The West Germans had already agreed in March 1968 to defer repayment on \$26 million of Hermes credits for three years. According to Yugoslav reports, the Economic Minister, Schiller, recently told the GOY that he believed the FRG would be able to help and the Yugoslavs expect to work out arrangements with the West Germans. The Italian Ambassador has informed us that he is confident that an arrangement satisfactory to Yugoslavia will be worked out to revise the Yugoslav debt repayment schedule by further refinancing which would provide debt postponement in 1969.

Proposed U.S. Assistance

1. Eximbank has received Yugoslav requests for loans totaling \$55 million to finance seven projects. In

addition Exim has received requests from American suppliers for credits totaling in excess of \$50 million (including aircraft) to finance Yugoslav purchases in the U.S. The Bank will consider these requests on a case-by-case basis and hopes to be able to make prompt, favorable decisions on several of them.

2. Rescheduling of P.L. 480 Repayment Bulge - Yugoslav Deputy Prime Minister Gligorov during his recent stay in Washington asked for rescheduling of CCC and P.L. 480 repayments due in 1968 and 1969. It is not practicable to reschedule CCC payments. However, rescheduling of a part of the principal due in dollars on P.L. 480 in 1968 and 1969 would be an appropriate response to the Yugoslav request.

Specifically we propose that \$7.9 million of principal due in December 1968 and December 1969, a total of \$15.8 million, be rescheduled by amending four previous P.L. 480 Title IV agreements. There is no legal requirement that such action be taken up with the Congress. No payment of the rescheduled \$15.8 million would be required in 1970. Beginning in 1971 the rescheduled amounts would be due over four years on an ascending scale geared to the decline in the present profile of CCC and P.L. 480 payments due in those years. These changes would be effected by exchanges of letters between the U.S. and Yugoslavia amending the following agreements with respect to the amounts shown:

<u>Date of Agreement</u>	Amount of Principal to be Rescheduled in December 1968 & 1969 Respectively (thousands)	Payment of Total Amount Rescheduled Under All Agreements	
		<u>Date</u>	<u>Amount</u> (thousands)
April 21, 1962	\$1,099	July 1971	2,371
April 27, 1964	1,517	July 1972	3,161
March 16, 1965	3,671	July 1973	3,951
July 16, 1965	<u>1,615</u>	July 1974	<u>6,322</u>
Total	\$7,902		\$15,804

It is to be noted that the \$15.8 rescheduling shown above overstates the net benefit to Yugoslavia because it

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does not take into account the additional interest which will have to be paid on the amounts rescheduled as follows:

<u>Year</u>	<u>Additional Interest</u>
1969	300,423
1970	600,844
1971	555,721
1972	450,634
1973	315,443
1974	<u>120,163</u>
Total	2,343,229

The net benefit to Yugoslavia from the \$15.8 rescheduling would be \$13.4 million.

Payments due on CCC and P.L. 480 indebtedness before rescheduling are shown in Tab D. Details of the proposed P.L. 480 rescheduling are shown in Tab E.

Legal Position

The Legal Adviser's office in this Department states that there is no legal barrier or procedural requirement that will prevent or delay amendment of the P.L. 480 agreements as proposed above. A copy of the legal memorandum is attached as Tab F.

Thomas O. Enders
Deputy Assistant Secretary for
International Monetary Affairs

Attachments: (See next page)

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Attachments:

- Tab A - IMF Balance of Payments Table
- Tab B - Reserves Table
- Tab C - Debt to Convertible Currency Area Table
- Tab D - CCC and PL 480 Debt before Rescheduling Table
- Tab E - Detail of Proposed PL-480 Rescheduling Table
- Tab F - Legal Memorandum

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