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DEPARTMENT OF STATE

Memorandum of Conversation

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DATE: July 20, 1965
TIME: 10:00 A.M.
PLACE: Mr. Solomon's Office

SUBJECT: Yugoslav Request for US Financial Support of Economic Reform Program

PARTICIPANTS:

U.S.

Assistant Secretary Solomon, E
Richard H. Davis, EUR
EUR/EE - Raymond E. Lisle
EUR/EE - Harold C. Vedeler

Yugoslav

Nikola Miljanic, Governor, Yugoslav National Bank
Vladimir Ceric, Deputy Secretary for Finance
Veljko Micunovic, Yugoslav Ambassador
Mihailo Stevovic, Yugoslav Embassy
Djuro Seles, Yugoslav Embassy

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Mr. Miljanic expressed his appreciation and that of the Yugoslav Government at being received to discuss the Yugoslav economic reform program and Yugoslav proposals for US support in the spirit of friendly relations between the US and Yugoslav Governments.

Miljanic said he wished to underscore the fact that during the last 14 years the Yugoslavs have been developing an economic system based on independent, self-government of producing factors operating in a market economy where planning plays a role. The plan establishes a general framework for economic development, but it does not allocate resources or investment; the plan sets general guides for various branches of the economy. The Yugoslav economy is still in the process of evolution, and the new reform program has been prepared in this context. The purposes of the program are to consolidate a market economy in Yugoslavia, further decentralize decision making in production and distribution, eliminate imbalances in economic structure (including remedying the relative lag in production of agricultural commodities and raw materials and imbalances in the balance-of-payments), improve productivity, and more fully integrate the Yugoslav economy into the world economy on the basis of the existing world trade and monetary systems.

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State Dept. Guidelines
By JC, NARA, Date 7-6-01

The chief features of the reform program are the establishment of a uniform exchange rate to replace the present system of varying settlement rates, establishment of a normal customs tariff, and adjustment of Yugoslav prices to accord with world prices. Most imports, especially in the areas of raw materials and semi-fabricated products, will be free of quantitative controls, but certain imports of equipment and consumer goods will remain subject to QR's and licensing. The processing industries will be penalized to the advantage of the raw materials and agricultural sectors by permitting world prices to affect Yugoslav prices.

The Yugoslavs envisage the consequences of the reform will be increased development of the raw materials and agricultural producing sectors, modernization and increased productivity in the processing industries (leading to their increased competitiveness in world markets), more realistic price relationships, and eventual stabilization of the balance-of-payments. Internationally it will mean an "open economy" coordinated with the existing international system. The program will, if successful, show that other developing countries can successfully achieve development on the basis of the world monetary and trade system. Mr. Miljanovic also noted that other countries of Eastern Europe will be closely watching the Yugoslav program to see whether or not it succeeds.

Mr. Miljanic said that full agreement on the program had been reached with the IMF, and the IMF is expected to approve a standby of $80 million to support the program. The program has been widely discussed within Yugoslavia, and a consensus in favor of it has been achieved. The Yugoslav Parliament is expected to adopt the necessary new legislation by July 24. The new exchange rate will be announced on the same date, and the entire program is due to be put into effect on July 26.

Miljanic said the Yugoslavs desired to push this program through in a complete way and at a reasonably fast pace. In order to do this Yugoslav foreign exchange reserves will have to be increased. These reserves are now about $70 million, less than one month's imports. If they are not increased, the import liberalization called for in the program will have to be restricted. For this reason, besides the $80 million IMF standby, the GOY is approaching its principal, friendly trading partners, the US, UK, Italy and France to request financial support. The UK and France have already agreed to receive Yugoslav representatives to discuss the matter, and the GOY plans to discuss it with Italy soon. In response to Mr. Solomon's question, Mr. Miljanic said that political relations with West Germany were such that the Yugoslavs did not wish to contact West Germany for assistance, even though West Germany is a major creditor. In

response

response to another question by Mr. Solomon, Mr. Miljanic said the GOY did not think a multilateral debt rescheduling along Paris Club lines was appropriate to the Yugoslav situation. Bilateral negotiations stressing the acquisition of new credits of 5-10 year term rather than rescheduling was preferred.

The basis for requesting new credits would be Yugoslav obligations to the US, UK, Italy and France over the next 3½ years, to the end of 1968. The purpose of the new credits would be to create larger reserves - equivalent to 2-3 months imports - to carry out the liberalization of imports effectively and to meet any shortages which might develop through increased imports. The exception to be noted here is new PL 480 programs from the US, which are necessary to meet basic import needs rather than to increase reserves. In addition to the $80 million from the IMF standby, the GOY is seeking $150-$160 million in new credits at present. In response to Mr. Solomon's request, Mr. Miljanic said he did not have a balance-of-payments analysis at hand which showed the need for the new credits, but one would be prepared and sent from Belgrade.

From the US, the Yugoslavs would like to have the following, all of which, Mr. Miljanic stressed, would be within the existing framework of US-Yugoslav relations:

1. Export-Import Bank credits (guarantees) to purchase raw materials and semi-fabricated products. The GOY is not seeking any rescheduling of present obligations to the EXIM Bank.

2. Rescheduling, including addition of grace periods, in certain prior short-term PL 480 480 Title IV sales agreements and including a grace period in the PL 480 sales agreement concluded in March 1965.

3. Easier repayment terms on future PL 480 Title IV sales agreements than in the last (July 1965) agreement. The GOY will be seeking to purchase wheat, soy bean oil, cotton and tallow in a 1966 PL 480 agreement.

4. US support of Yugoslav approaches to the UK, France and Italy.

Mr. Solomon said he felt the Yugoslavs were undertaking a move in the right direction with their reform program and hoped it would be successful. He mentioned a recent study showing the higher outputs achieved from equal inputs of capital and labor in a market economy compared with a centrally planned economy. (Mr. Miljanic said Yugoslavia had actually experienced this phenomenon and thus attached great importance to carrying out the reform program successfully.) As regards the requests made

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for US support, Mr. Solomon said that these would have to be discussed with other agencies, including the Departments of Agriculture and the Treasury and the Export-Import Bank. He said he thought PL 480 payments had never been rescheduled before, but that this did not mean that such rescheduling is impossible. Mr. Solomon suggested that a subsequent meeting be held with representatives of other interested agencies present so that these matters could be discussed in greater detail.

Mr. Solomon said the Yugoslav request would be given prompt attention, and possibly some general indication of the US response might be given to the Yugoslav representatives before their departure on July 23 or 24. If such a response is not possible before their departure, it will be conveyed shortly thereafter. Mr. Solomon said he would discuss the Yugoslav approach with Under Secretary Mann before the Yugoslavs' meeting with Mr. Mann at 3 p.m. today.

Mr. Carl Charlick (OPR/LS) served as interpreter.

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