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15 Nov 83

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EAST GERMANY

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Germany's net debt to Western banks (excluding those in the FRG) fell by nearly \$1.2 billion in the first half of 1983. East Berlin's liabilities fell by \$600 million while its reserves with the banks increased by \$570 million. [Redacted]

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believe that East Germany improved its position vis-a-vis international banks by running an \$800 million current account surplus and by borrowing from other sources. [Redacted]

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[Redacted]

In addition, East Germany increased its borrowing from West Germany through the \$400 million dollar government-guaranteed loan granted earlier this year and a trade deficit of nearly \$300 million at midyear. [Redacted]

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[Redacted]

According to Embassy reporting, discussions apparently are underway for a second West German loan of \$375 million to the Honecker regime. Many West German political leaders, however, are unhappy with Bonn's handling of the earlier loan and will

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[Redacted]

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object to any new credits unless the East Germans make substantial political concessions. At this time, East Berlin shows no sign of going beyond the very limited concessions it made after the previous loan.

[REDACTED]

YUGOSLAVIA

Western governments which participated in the 1983 "Friends of Yugoslavia" financial rescue package, Kuwait, Yugoslavia, and the IMF are meeting on 18 November to examine implementation of the package and to assess Yugoslavia's economic performance.

[REDACTED]

The IMF projects Yugoslavia's 1984 financing requirement at \$3.3 billion; the projection assumes a \$1 billion build-up of reserves and a current account surplus of \$250 million. The Fund wants Western governments to refinance \$500 million in maturing loans and to provide \$250 million in new trade credits while commercial banks would refinance \$1.0 billion and provide \$400

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million in new loans. Credits from the IMF, World Bank, and suppliers would cover the remainder of the financing requirement. [REDACTED]

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The IMF is likely to encounter opposition to its financing package. While some Western governments and Yugoslavia favor the IMF approach, others (the UK and France) prefer that Yugoslavia reschedule its debt in the Paris Club. Western bankers accept the need to refinance their claims, but many are unwilling to put up new money. Some bankers believe that Belgrade is too ineffective in forcing Yugoslav enterprises to repatriate export earnings and that the banks should not cover this shortfall. Other bankers argue that much of the new money they put up for the 1983 package was used to pay off government creditors and that some West European governments have not advanced trade credits pledged in the "Friends of Yugoslavia" agreement. [REDACTED]

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The failure to advance the government credits could cause problems with the remaining disbursement of the 1983 bank package. [REDACTED] the banks released the first tranche of new money (\$255 million) on 26 October, and the second tranche (\$90 million) was scheduled to be disbursed on 14 November. The final tranche of \$240 million is to be disbursed before the end of the year, but this depends on Yugoslavia drawing \$745 million in government credits. Because of problems in using the credits, the Yugoslavs may fall short of this total. [REDACTED]

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POLAND

A US banker attending a meeting between Western banks and Polish finance officials told Embassy officers that the banks and Warsaw would begin negotiations on rescheduling 1984 debts before the end of this year. The banker felt that both sides were likely to agree to some multi-year format this time around and that an agreement could be hammered out by early next year. The banker doubted that Western banks would extend new credits any time soon, even if Warsaw reached a rescheduling agreement with its official creditors in the Paris Club. [REDACTED]

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