

25X1

Page Denied

Next 1 Page(s) In Document Denied

25X1

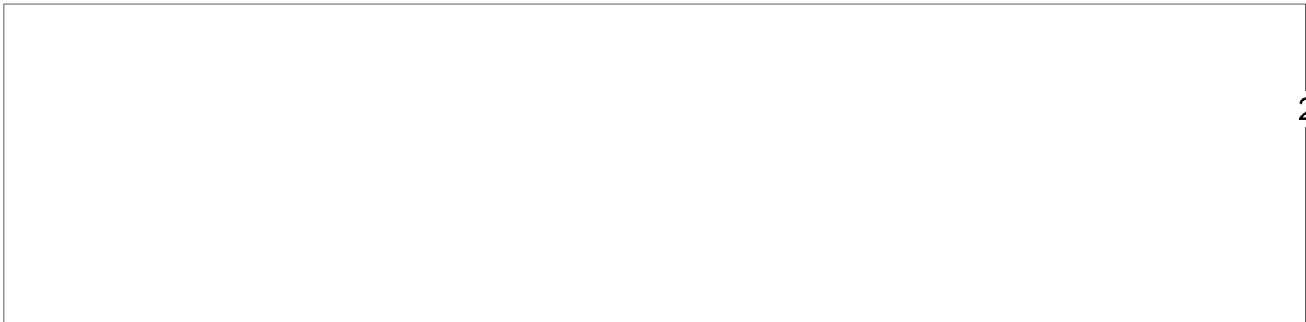


Hungary

Following two years of relative success with IMF standby programs, the Hungarians may not conclude a new agreement with the Fund for 1985. The US Embassy reports that negotiations for a \$200-\$300 million loan broke off in late 1984. Hungarian bankers contend that after examining Budapest's improved financial picture, the IMF Staff felt they would have difficulty convincing the Fund's management of the need for another standby. The IMF had indicated it might arrange a small standby loan provided that Budapest was willing to implement structural reforms and adjustment measures beyond those it was already contemplating. The standby could only be drawn on in event of extreme need. We believe that Budapest found the IMF's terms unattractive given the limited prospect for new credits. The Hungarians, nevertheless, want to maintain good relations and apparently have agreed to continue providing the IMF with all the performance data that would normally be provided under a standby. An IMF mission will return to Budapest later in the year for further discussions on a standby program.



25X1



25X1

25X1



25X1



25X1



25X1

25X1

Yugoslavia

In late December, Belgrade reached a framework agreement with the IMF on a new one-year standby agreement for 1985, according to US Embassy reporting. Specific terms and performance criteria must still be worked out when an IMF delegation returns to Belgrade in mid-February. Finance Minister Klemencic hinted that the issue of establishing real positive interest rates on domestic dinar deposits in 1985 is the key sticking point to be resolved with the Fund, and that he had proposed shifting the deadline for compliance from the end of March 1985--as stipulated in the 1984 Fund standby agreement--to the end of 1986.

25X1

Meetings over the past week between Yugoslavia and the International Coordinating Committee (ICC) representing Western bank creditors bogged down over Belgrade's unyielding insistence on a multiyear rescheduling. The Yugoslav delegation held to its request for a one-time rescheduling covering 1985-88, despite the ICC's rejection of the arrangement in earlier meetings. Finance Minister Klemencic did not lead the Yugoslav delegation, and ICC representatives interpreted his absence as a ploy, since the Yugoslav delegation did not appear to have the authority to make

25X1

[Redacted]

25X1

decisions or to conclude an agreement. [Redacted]

25X1

The ICC came to the meetings prepared to offer a compromise solution that would reschedule maturities for two years, followed by two single-year reschedulings. The banks did not offer their proposal at the outset because of Yugoslav intransigence, [Redacted]

25X1

[Redacted]

25X1

Other issues that the

ICC hoped to resolve at the meeting included the terms of rescheduling and the mechanism that will trigger closer IMF involvement under the enhanced monitoring program to go into effect after 1985. The ICC proposed that levels of reserves and exports be established below which Yugoslavia would automatically revert to closer IMF supervision. [Redacted]

25X1

[Redacted]

25X1

Belgrade proposed a rate of 0.875 over LIBOR, with no prime option for subscribing banks. But the ICC was not willing to consider a rate of less than 1.25 percent over LIBOR, and more than half the ICC members are opposed to dropping the prime option for Yugoslavia. The meeting broke up apparently with little progress on these issues. [Redacted]

25X1

We believe that Belgrade is holding stubbornly to its demand for a multiyear rescheduling in hopes that it can use concessions by the banks to overcome the opposition of government creditors to a multiyear arrangement. Klemencic and other key cabinet officials may have backed themselves into a corner and are unwilling to admit to the Yugoslav Parliament--which is increasingly critical of their handling of financial issues--that

[Redacted]

25X1

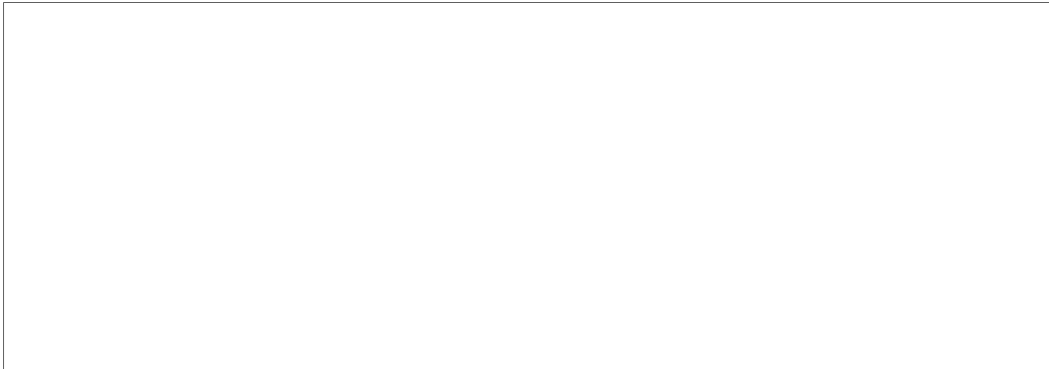
25X1

[redacted]

they cannot deliver the multiyear arrangement they promised. Unless compromise is arrived at quickly, however, formal signing of a rescheduling agreement may be delayed beyond June, while the costs of delay mount. [redacted]

25X1

25X1



Poland

The US Embassy reports that at a 15 January Paris Club session, Warsaw and its official creditors initialled an agreement rescheduling 1982-84 debts. The two sides agreed to reschedule 100 percent of overdue principal and interest over 11 years with a 5-year grace period and to reschedule 50 percent of the interest due on this agreement in 1985 over 10 years with 6 years grace, as agreed in principle in November. [redacted]

25X1

As expected, the talks ran into difficulty when the creditors objected to a letter submitted by Polish debt negotiator Karcz suggesting Polish implementation of the agreement would be contingent on its receipt of new credits. After much discussion, the Polish delegation agreed to compromise on a nonbinding side letter that urges Poland's creditors to grant new credits starting in 1985 and to support its application

25X1

[Redacted]

25X1

for membership in the IMF. But the Poles are required to fulfill all terms of the agreement regardless of the governments' response to the letter. [Redacted]

25X1

Karcz also told the US Embassy that he believes that Poland will be accepted into the IMF by June of this year. A low-level IMF team is expected to arrive in Warsaw on 7 February to renew and update the technical and financial work which had begun in 1981. Furthermore, Karcz hoped to meet in Washington with IMF officials in late February and expected a high-level delegation to come to Warsaw in March. [Redacted]

25X1

25X1

[Redacted]

[Redacted]

25X1