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**Collection:** Executive Secretariat, NSC: Country  
File: Records, 1981-1985  
**Folder Title:** Soviet Bloc Economic and Financial  
Situation Update: (04/08/1982) (2)  
**Box:** RAC Box 19

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# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** EXECUTIVE SECRETARIAT, NSC: COUNTRY FILE

**Withdrawer**

KDB 8/25/2015

**File Folder** SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION  
UPDATES (4/8/82) (2)

**FOIA**

F03-002/5

**Box Number** 19

SKINNER

106

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
168794	CABLE	031548Z APR 82	1	4/3/1982	B1
168795	CABLE	020014Z APR 82 <b>D 9/12/2013 CREST NLR-748-19-29-2-4</b>	1	4/2/1982	B1
168796	CABLE		2	3/30/1982	B1
168797	REPORT	(EXCERPTS FROM 2 REPORTS) <b>PAR 10/8/2010 CREST NLR-748-19-29-4-2</b>	3	3/1/1982	B1
168798	CABLE	BUDAPEST 1751	4	4/1/1982	B1
168799	CABLE		10	3/30/1982	B1
168800	CABLE	031531Z APR 82	1	4/3/1982	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
168801	CABLE	011852Z APR 82	1	4/1/1982	B1
168802	CABLE	011718Z APR 82	1	4/1/1982	B1
168803	168803	011726Z APR 82	1	4/1/1982	B1
168804	CABLE		6	4/5/1982	B1
168805	CABLE	011649Z APR 82	1	4/1/1982	B1
168806	CABLE		6	4/2/1982	B1

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168795	CABLE 020014Z APR 82	1	4/2/1982	B1

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168796	CABLE	2	3/30/1982	B1

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168797	REPORT  (EXCERPTS FROM 2 REPORTS)	3	3/1/1982	B1

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25X1

168797

**Eastern Europe:  
Economic Problems  
and Prospects (U)**

**Key Judgments**

The performance of the East European economies has deteriorated sharply in recent years. GNP growth has gone from nearly 5 percent per annum in the first half of the 1970s to virtual stagnation or worse since 1978, and some of the countries face serious external financing problems. Slower growth can be attributed in part to stabilization programs designed to rein in rapidly growing hard currency debt and to unfavorable developments in Western markets. Eastern Europe's problems, however, are rooted primarily in the chronic distortions and inefficiencies of centralized economic planning and clumsy management.

The East European regimes are now paying the price for the ambitious and poorly conceived investment programs that they financed in large part with hard currency credits and for their failure, for the most part, to reform their outdated systems of economic management. For a time, sizable inflows of new Western credits permitted large-scale imports of Western equipment, grain, and other goods, helping to paper over economic shortcomings. But poor investment decisions and the rigidities of their command economies thwarted the translation of Western technology into improved industrial productivity and competitiveness.

Eastern Europe's transition to slow growth would have been even more abrupt if Moscow had not continued to increase supplies of energy and raw materials at concessionary prices and had not granted long-term credits to help Eastern Europe cope with rising trade imbalances with the USSR.

Over the next few years, economic performance and living standards will at best stagnate in Eastern Europe, aggravating the danger of political instability. The region will be hurt by slowing deliveries of Soviet energy and raw materials, worsening terms of trade with both the USSR and the West, and reduced availability of Western credit. Investment rates will continue to fall in response to hard currency shortages and decisions to pay more attention to consumption. Economic performance will also suffer from a further slowdown in labor force growth and persistent problems with productivity. With the possible exception of Hungary, no East European regime seems likely to implement the reforms needed to correct basic ills of its planning and management system.



MORI/CDF (C05041395)

25X1

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NLR *Crest*

BY *CW* NARA DATE *1/13/12*

iii

~~Confidential~~  
EUR 82-10027  
March 1982

~~Secret~~ P  
[Redacted]

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25X1

**Eastern Europe's  
Credit Crunch (U)**

**Key Judgments**

Inability to obtain loans threatens a spreading financial crisis in Eastern Europe. Bankers' concern over East European creditworthiness heightened in 1981 as Poland sought to negotiate debt relief and Romania fell behind in meeting its payments obligations. Hungary, East Germany, and Yugoslavia may have to join Poland and Romania in rescheduling their debts by the end of the year. At best, the sharp import cuts forced by the lack of access to credits will depress domestic growth and living standards and have serious implications for political stability. Only Bulgaria and Czechoslovakia, ironically rewarded for their policy of economic independence from the West, seem immune for the time being from the credit crunch. [Redacted]

25X1

The East European countries have faced an increasingly chilly borrowing climate for more than a year. The Polish and Romanian financial crises, coupled with growing concern over Eastern Europe's economic problems in general, have led bankers to reassess their assumptions about the area's creditworthiness. Recent information suggests that their access to Western credit continues to shrink. As matters now stand, no East European borrower can obtain a syndicated Eurocurrency loan, and bankers are refusing to roll over some credits as they come due. Even the export credit agencies of Western governments, hard hit by the situation in Poland and other problems, are wary of increasing loan guarantees. [Redacted]

25X1

Poland's 1981 private debt rescheduling agreement is in suspense, and Warsaw has virtually no chance of generating a large trade surplus or obtaining enough debt relief and credits to cover a 1982 debt service burden of \$10 billion. None of the possible outcomes to Poland's financial mess is likely to improve the prospects for borrowing by other East European countries. Although a Polish default alone would not lead to serious debt servicing problems for the other countries, it would delay and make more difficult their return to Western capital markets. [Redacted]

25X

Romania's problems, like Poland's, have hurt Eastern Europe's ability to borrow. Bucharest's effort to reschedule its debt with banks is off to a shaky start, but several obstacles must be overcome to conclude an agreement. Even with debt relief, Bucharest would face a large financial gap. After sharp import cuts in 1981, there is less scope for adjustment

\*Include East European CEMA members and Yugoslavia. [Redacted]

25X1

MORI/CDF (C05041412)

~~Secret~~  
EUR 82-10033  
March 1982



without damage to the already strained do  
low and Romania is reluctant to draw from  
some of it has been used as collateral for k

East Germany, Hungary, and Yugoslavia l  
ing needs this year, and they are virtually s  
markets. Banks have been reducing their m  
for the past year, and in recent weeks some  
duced their short-term lines of credit. Even  
East Germany, Hungary, and Yugoslavia v  
1982, but they might be able to get through  
guaranteed loans, supplier financing, reserv



25X

Eastern Europe's borrowing problems woul  
negative attitudes were reinforced by reduci  
governments. Credits granted or guaranteed  
been important supplements to commercial  
tries. More important, a curtailment of new  
and guarantees would accelerate the private  
(including short-term credit lines). If this we  
European countries would find their debt se  
ble, and they would have to seek reschedulin  
of IMF credits would add to the woes of me  
Yugoslavia and prospective member Hungar

One option for these East European countrie  
debts until they were assured that Western g  
to restore normal credit relations. Over the k  
Europe—particularly Yugoslavia—would wa  
financial relations with the West and try to  
the USSR. Facing serious economic constrai  
not provide nearly enough to offset diminishe  
imports. In fact, the USSR may be pursuing  
already cut back on deliveries of oil to all the  
cept Bulgaria and Poland.



25X

~~Secret~~

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Q

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168798	CABLE  BUDAPEST 1751	4	4/1/1982	B1

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168800	CABLE  031531Z APR 82	1	4/3/1982	B1

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168801	CABLE 011852Z APR 82	1	4/1/1982	B1

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168802	CABLE 011718Z APR 82	1	4/1/1982	B1

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168803 168803	011726Z APR 82	1	4/1/1982	B1

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E.O. 12065: RDS-1 4/5/92 (WHITMAN, WILLIAM B.) OR-E  
TAGS: EFIN, YO  
SUBJECT: YUGOSLAV SHORT-TERM CREDIT SITUATION  
REF: STATE 88932

1. ~~(ENTIRE TEXT)~~.

2. SUMMARY. SINCE NEWS OF THE POSSIBLE CITIBANK-ORGANIZED SHORT-TERM CREDIT BEGAN TO CIRCULATE HERE WE HAVE DISCUSSED THIS TOPIC WITH SEVERAL YUGOSLAV AND U.S. BANKERS. THEY ALL AGREED THAT A BRIDGING LOAN WOULD OFFER REAL POSSIBILITIES FOR YUGOSLAVIA TO COVER ITS FINANCIAL GAP WITHOUT DEBT RESCHEDULING. END SUMMARY.

3. ON APRIL 5 THE AMBASSADOR TALKED TO BRANISLAV COLANOVIC, PRESIDENT OF JUGOBANKA AND BEFORE THAT GOVERNOR OF THE YUGOSLAV NATIONAL BANK. COLANOVIC SAID YUGOSLAVIA NEEDS TO BUT TIME IN ORDER TO IMPROVE ON THE CURRENT SEVER FX LIQUIDITY PROBLEM AND BENEFIT FROM POTENTIAL IMPROVEMENTS IN THE BALANCE OF PAYMENTS. COLANOVIC EXPLAINED THAT THIS YEAR YUGOSLAVIA HAS A CONCENTRATION OF LOAN REPAYMENTS, BUT HAS NOT YET ACHIEVED THE EXPORT GROWTH HE SEES POSSIBLE IN THE NEAR FUTURE. ACCORDING TO COLANOVIC, YUGOSLAVIA IS STILL PLAGUED WITH EXCESSIVE DEMAND, INFLATION AND STANATION IN WESTERN MARKETS. AS A RESULT, EXPORT PERFORMANCE SO FAR THIS YEAR, ESPECIALLY TO THE CONVERTIBLE ARREA, HAS FALLEN WELL SHORT OF TARGET AND TIS, TOGETHER WITH HEAVY REPAYMENT BURDENS, HAS CAUSED THE ACUTE LIQUIDITY PROBLEM. HOWEVER, HE SEES BETTER DOMESTIC UTILIZATION OF FX AND A CITIBANK SHORT-TERM LOAN AS PROVIDING BADLY NEEDED LIQUIDITY OVER THE NEXT 9 TO 12 MONTHS, PROVIDED THAT THE GOY ALSO UNDERTAKES EFFECTIVE B/P MEASURES PROMPTLY IN ORDER TO CREATE A MORE FAVORABLE LONGER TERM SOLUTION. AMONG THESE STEPS COLANOVIC MENTIONED REGULATIONS TO PROVIDE BETTER CONTROL OVER YUGOSLAVIA'S FOREIGN LIQUIDITY POSITION, WHICH WE TAKE TO MEAN GOY OVERSIGHT OF FOREIGN BORROWING BY THE COMMERCIAL BANKS. ANOTHER STEP WOULD BE ACCELERATED REPATRIATION OF FX AND AN EXPORT SUBSIDY SYSTEM WHICH WOULD DENY EXPORT CREDITS TO THOSE WHO FAILED TO BRING BACK HARD CURRENCY FUNDS.

4. AMONG OTHER POSITIVE B/P SIGNS COLANOVIC SEES DOMESTIC INFLATION COMING DOWN SUBSTANTIALLY BUT NOT BELOW THE 1981 TARGET LIMIT OF 15 PERCENT. WESTERN ECONOMIES ARE ALSO SHOWING SIGNS OF REVIVAL, AND HE ALSO ENVISAGES SOME INTERNAL REGULATIONS WHICH WOULD STIMULATE BETTER CONCENTRATION OF DINAR FUNDS FOR

EXPORT FINANCING. COLANOVIC ALSO THINKS YUGOSLAVIA SHOULD ALSO DRAW ON HITHERTO OVERLOOKED SOURCES OF CREDIT SUCH AS AGRICULTURAL PURCHASES UNDER THE CCC PROGRAM, AND DRAW DOWN LARGE UNUSED CREDITS FROM THE WORLD BANK.

5. WE ALSO DISCUSSED THIS QUESTION WITH A SENIOR MEMBER OF THE NATIONAL BANK RESEARCH STAFF WHO ACKNOWLEDGED THE SERIOUSNESS OF THE SHORT-TERM CREDIT SITUATION. HE POINTED OUT HOWEVER THAT EARLY 1982 ECONOMIC RESULTS, WHILE FALLING SHORT OF TARGET IN MANY KEY AREAS, IN THEMSELVES OFFERED NO CAUSE FOR MAJOR CONCERN; IN FACT, THE OVERALL BALANCE OF PAYMENTS POSITION THIS YEAR SHOWED AN OVERALL FIRST QUARTER DEFICIT SMALLER THAN LAST YEAR. IN HIS VIEW, YUGOSLAVIA HAD A LIQUIDITY PROBLEM MAINLY BECAUSE A LACK OF CONFIDENCE BY FOREIGN FINANCIAL INSTITUTIONS IS BEING REFLECTED IN TERMINATION OF SHORT-TERM CREDIT LINES.

6. OUR SOURCE PLACED THE SHORT-TERM CREDIT PROBLEM IN THE CONTEXT OF A SEASONAL GAP WHICH NEEDS TO BE BRIDGED. HE POINTED OUT THAT THE SECOND QUARTER IS TRADITIONALLY A BAD TIME FOR THE BALANCE OF PAYMENTS SINCE IT LIES IN THE SEASONAL TROUGH BEFORE FOREIGN EXCHANGE OUTFLOWS ARE REPLACED BY TOURIST REVENUES AND WORKER REMITTANCES. HE SAID THAT IF CURRENT SHORT-TERM LINES COULD BE RENEWED OR ROLLED OVER AT EXISTING LEVELS WITHOUT ANY EXPANSION, THERE WOULD BE NO NEED FOR YUGOSLAVIA TO RESCHEDULE THIS YEAR. ACCORDING TO THE NATIONAL BANK, YUGOSLAVIA'S SHORT-TERM EXPOSURE NOW TOTALS AROUND 2 BILLION DOLLARS, LARGELY USED FOR OIL IMPORTS. AN INVOLUNTARY 200 MILLION DOLLAR NET REDUCTION IN TOTAL SHORT-TERM EXPOSURE HAS BEEN REGISTERED SINCE THE END OF 1981.

7. ACCORDING TO OUR INFORMANT, TOTAL NATIONAL BANK RESERVES NOW STAND AT 2.3-2.4 BILLION DOLLARS OF WHICH 800-900 MILLION DOLLARS ARE HELD BY THE COMMERCIAL BANKS. THE CURRENT RESERVE FIGURE REFLECTS A DRAW-DOWN OF ABOUT 400 MILLION DOLLARS SINCE THE END OF LAST YEAR.

8. WE ALSO DISCUSSED THE YUGOSLAVS' SHORT-TERM PROBLEMS WITH VISITING BANKER'S TRUST ANALYST STAN RUDCENKO, WHO RECENTLY SPOKE TO NATIONAL AND COMMERCIAL BANK OFFICIALS ABOUT THE SITUATION AND THE RUMORED BRIDGING CREDIT. RUDCENKO WAS OPTIMISTIC THAT A BRIDGING LOAN COULD KEEP YUGOSLAVIA "OUT OF THE WOODS" FOR THE REMAINDER OF 1982. HE TOO ESSENTIALLY SAW THE YUGOSLAV PROBLEM AS ONE INVOLVING A SECOND QUARTER SEASONAL DIFFICULTY WHICH COULD BE OVERCOME BY STRONG FX INFLOWS DURING THE LAST HALF OF THE YEAR. HOWEVER, HE SAID IT WAS IMPORTANT THAT THERE BE NO SUBSEQUENT BUNCHING OF REPAYMENTS AND THAT A REASONABLE LEVEL OF SHORT-TERM LOANS CONTINUE. HE THOUGHT THAT A GOOD SHORT-TERM INFLOW, COMBINED WITH THE TWO MONTHS OF IMPORTS NOW IN RESERVE WOULD BE SUFFICIENT TO TIDE THE YUGOSLAVS OVER. ANDERSON BT

*Update*

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~~C O N F I D E N T I A L~~ TOKYO 05706

BRUSSELS FOR OECD  
E. O. 12065: GDS 4/6/88 (IMMERMAN, ROBERT) OR-P  
TAGS: PEPR, EAID, ASEAN, VM, JA  
SUBJECT: (U) RUMOR OF JAPANESE LOAN TO VIETNAM  
REF: BANGKOK 19852  
EMBOFF CONTACTED MOFA FIRST SOUTHEAST ASIA (INDOCHINA  
AND THAILAND) DIVISION ON APRIL 5 CONCERNING REPORT  
OF DOLLARS 60 MILLION JAPANESE LOAN TO VIETNAM (REFTEL).  
DIVISION OFFICER EXPRESSED SURPRISE AT THIS NEWS AND  
SAID HE KNEW NOTHING ABOUT IT. IN FOLLOW-UP CALL ON  
APRIL 6, DIVISION OFFICER SAID THE REPORT WAS ENTIRELY  
UNTRUE, THAT NEITHER MOFA NOR MITI HAD AUTHORIZED SUCH  
A LOAN, AND THAT GOJ WAS CURIOUS TO LEARN HOW THE  
RUMOR HAD STARTED. HE CONCLUDED THE CONVERSATION WITH  
THE OBSERVATION THAT GOJ'S POLICY ON AID TO VIETNAM IS  
WELL KNOWN, AND THAT FOREIGN MINISTER SAKURAUCHI HAD  
REITERATED IT BEFORE THE LOWER HOUSE FOREIGN AFFAIRS  
COMMITTEE AS RECENTLY AS APRIL 2.  
MANSFIELD  
BT

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AMEMBASSY MANILA 8932  
AMEMBASSY TOKYO 4291  
AMCONSUL HONG KONG 7690  
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AMEMBASSY LONDON 1641  
AMEMBASSY BRUSSELS 0349  
USMISSION USUN NEW YORK 1081

*Update*

~~C O N F I D E N T I A L~~ SINGAPORE 03429

BRUSSELS FOR OECD  
E. O. 12065: RDS-1 4/6/02 (THAYER, HARRY E. T.) OR-M  
TAGS: PEPR, EFIN, EAID, VM, JA, SN  
SUBJ: REPORTED JAPANESE LOAN  
- TO VIETNAM

1. ~~(C~~ - ENTIRE TEXT).
2. MFA DEPUTY POLITICAL AFFAIRS DIRECTOR SIDDIQUE (PROTECT) TOLD US APRIL 5 THAT THE GOS HAD RECEIVED WORD OF THE PLANNED JAPANESE LOAN TO THE SRV. HE SAID AMBASSADOR COOMARASWAMY WAS BEING INFORMED AND WOULD BE ASKED TO CONTACT THE DEPARTMENT SEEKING USG HELP IN MAKING STRONG REMONSTRATIONS WITH THE GOJ. ASEAN WOULD ALSO BE DOING SO DIRECTLY WITH THE JAPANESE.
3. SIDDIQUE NOTED THAT MITSUI INTERESTS MAY BE BEHIND THIS JAPANESE PLAN. HE ALSO SAID GOJ FONMIN SAKURAUCHI'S PAST ASSOCIATION WITH THE JAPANESE-VIETNAMESE FRIENDSHIP ASSOCIATION PROBABLY PREDISPOSES HIM TO A FAVORABLE VIEW OF AID TO THE SRV.
4. COMMENT: IT WAS NOT CLEAR WHETHER GOS INFORMATION CAME FROM THE THAI (PER BANGKOK 19852) OR INDEPENDENTLY FROM TOKYO. STRONG AND SPEEDY ACTION WILL BE NEEDED TO HEAD OFF THIS LATEST MOVE, IF INDEED IT IS A REAL POSSIBILITY. COMING AS IT APPEARS TO BE IN THE CONTEXT OF THACH'S IMMINENT WESTERN EUROPEAN VISIT AND MURMURINGS OF A FALL-OFF BY SOME EUROPEANS FOR SUPPORT TO DK SEATING, A JAPANESE LOAN WOULD BE A SIGNIFICANT SETBACK FOR ASEAN AND ITS FRIENDS. END COMMENT. THAYER  
BT

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