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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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### **Ronald Reagan Library**

Collect	tion Name	EXECUTIVE S	SECRETARIAT, N	ISC: COUNTRY FILE		Withd	drawer
						KDB	8/25/2015
File Fo	older			D FINANCIAL SITUA	TIO		
		UPDATES (4/8	5/82) (2)			F03-00	
Box Nu	umber	19				SKIN1 106	NER
ID	Dос Туре	Docume	ent Description		of ges	and the second	Restrictions
168794	CABLE	031548Z	APR 82		1	4/3/1982	B1
168795	CABLE	020014Z	APR 82		1	4/2/1982	B1
		D	9/12/2013	CREST NLR-748-1	9-2	9-2-4	
168796	CABLE				2	3/30/1982	B1
168797	REPORT	(EXCER	PTS FROM 2 REF	PORTS)	3	3/1/1982	B1
		PAR	10/8/2010	CREST NLR-748-1	9-2	9-4-2	
168798	CABLE	BUDAPI	EST 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)]

B-1 National security classified information [(b)(1) of the FOIA]

B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]

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Collec	tion Name	EXECUTIVE SECRETARIAT, NSC: COUNTRY FI	LE	Withd	drawer
				KDB	8/25/2015
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		UPDATES (4/8/82) (2)		F03-0	02/5
Box N	umber	19		SKIN 106	NER
ID	<b>Doc</b> Туре	Document Description	No of Pages		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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<i>File Folder</i> SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION UPDATES (4/8/82) (2)			FOIA F03-002/5 SKINNER		
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ID	Document Type Document Description	No of pages	Doc Date	Restric- tions	
168794	4 CABLE	1	4/3/1982	B1	

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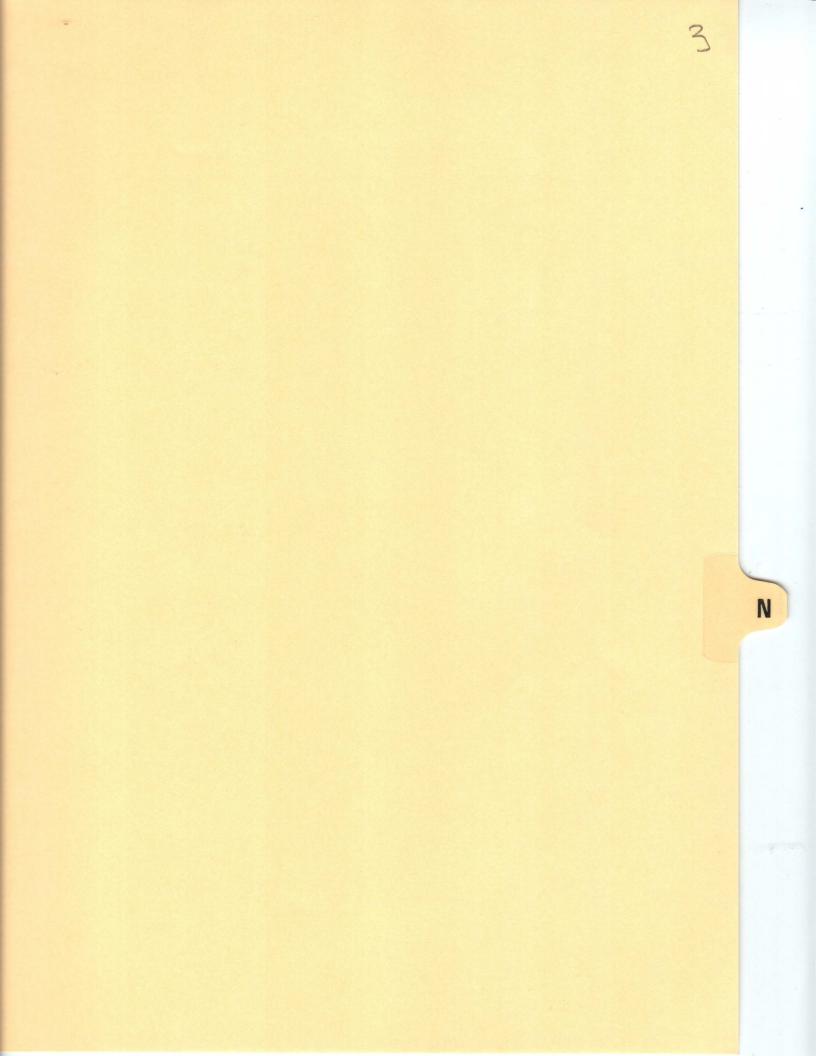
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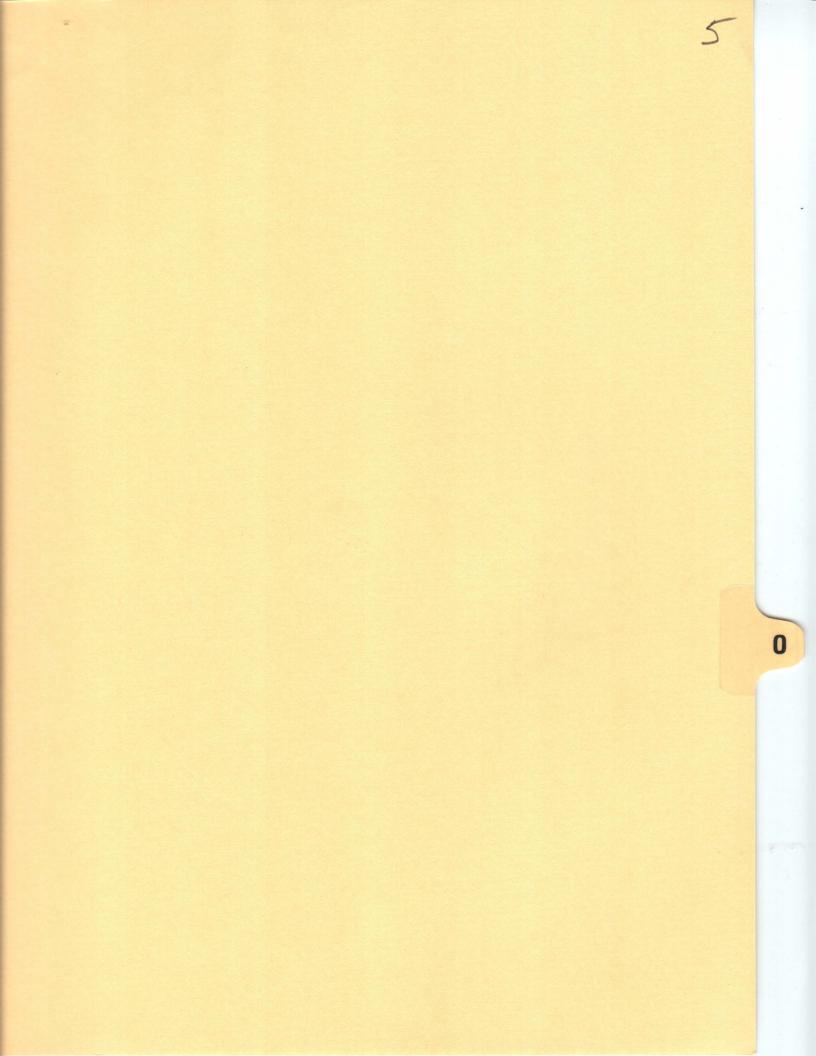
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16879	96 CABLE	2	3/30/1982	B1

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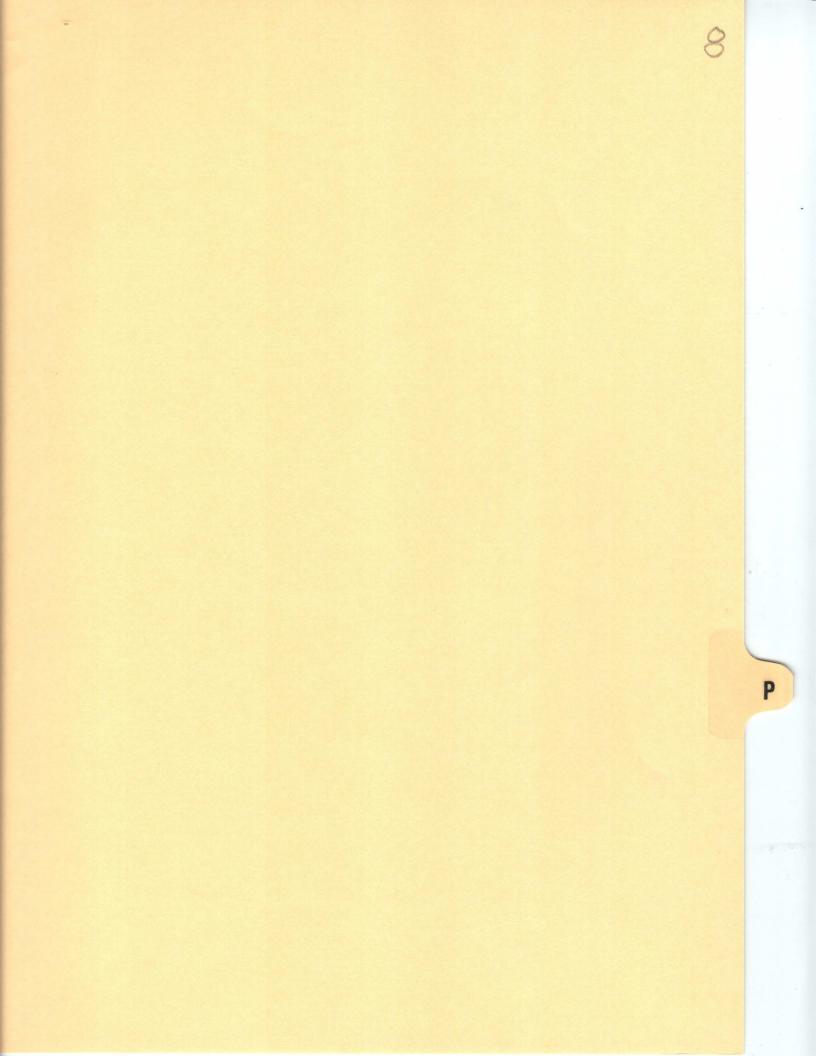
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EXECUTIVE SECRETARIAT, NSC: COUNTRY FILE	KDB 8/25/2015
<i>File Folder</i>	<i>FOIA</i>
SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION	F03-002/5
UPDATES (4/8/82) (2)	SKINNER
Box Number 19	106
ID Document Type	No of Doc Date Restric-
Document Description	pages tions
168797 REPORT (EXCERPTS FROM 2 REPORTS)	3 3/1/1982 B1

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

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No Objection to Declassification in Part 2010/10/08 : NLR-748-19-29-4-2

#### 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 about 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 hist stagnate in Eastern Europe, aggravating the danger of political histability. The region will be hurt by slowing deliveries of Soviet energy and raw materials, worsening terms of trade with both the USSR and the hiest, 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 easic ills of its planning and management system.

**DECLASSIFIED IN PART** 

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MORI/CDF (C05041395)

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Confidential EUR 82-10027 March 1982

No Objection to Declassification in Part 2010/10/08 · NI R-748-19-29-4-2

No Objection to Declassification in Part 2010/10/08 : NLR-748-19-29-4-2

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#### 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 <sup>1</sup> 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.

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 greed, have led bankers to reassess their assumptions about the area's credit worthiness. 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 ot or problems, are wary of increasing loan guarantees.

Pland's 1981 private debt rescheduling agreement is in suspense, and Varsaw has virtually no chance of generating a large trade surplus or obtaining enough debt relief and credits to cover a 1982 debt service brodes of \$10 billion. None of the possible outcomes to Poland's financial most 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.

Romania's problems, like Poland's, have hurt Eastern Europe's ability to the root. Bucharest's effort to reschedule its debt with banks is off to a superfler start, but several obstacles must be overcome to conclude an abreament. Even with debt relief, Bucharest would face a large financial generation of the start o

" fachulas East European CEMA members and Yugoslavia.

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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

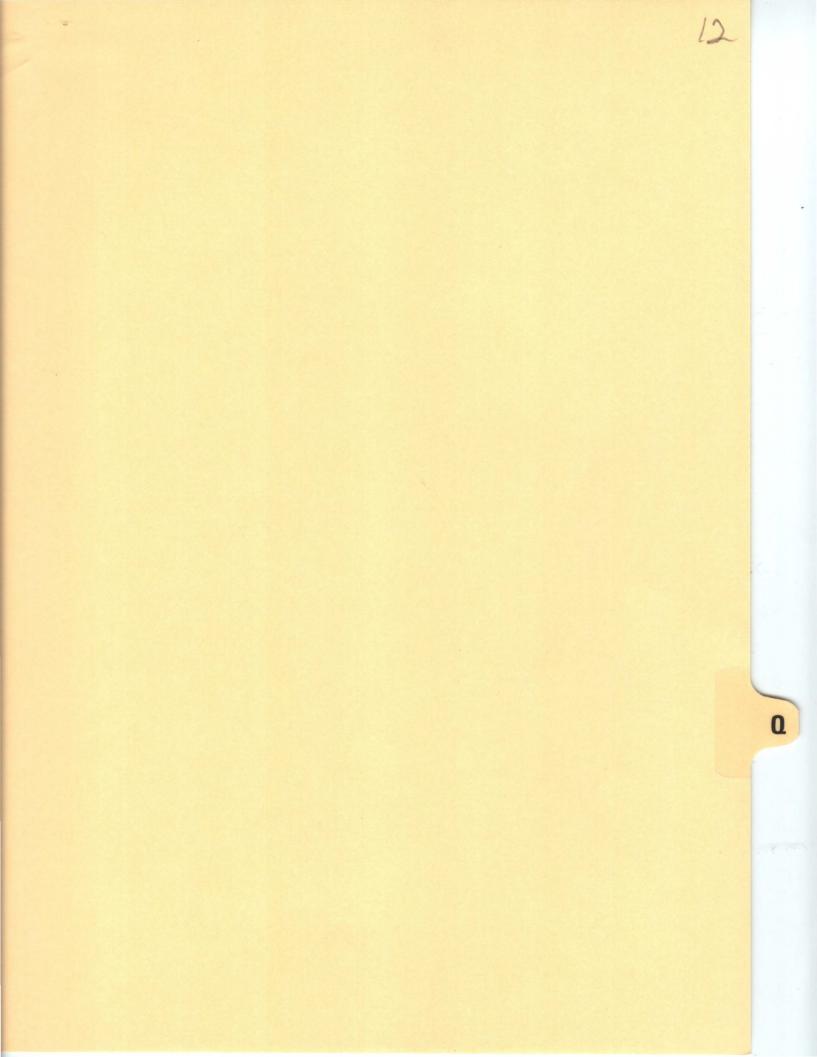
East Germany, Hungary, and Yugoslavia 1 ing needs this year, and they are virtually s markets. Banks have been reducing their m for the past year, and in recent weeks some duced their short-term lines of credit. Even East Germany, Hungary, and Yugoslavia v 1982, but they might be able to get through guaranteed loans, supplier financing, reserv

Eastern Europe's borrowing problems would negative attitudes were reinforced by reduct governments. Credits granted or guaranteed been important supplements to commercialtries. 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 ; to restore normal credit relations. Over the is Europe—particularly Yugoslavia—would wa financial relations with the West and try to ; the USSR. Facing serious economic constrain 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.

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<i>File Folder</i> SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION UPDATES (4/8/82) (2) <i>Box Number</i>	F	<i>FOIA</i> F03-002/5 SKINNER	
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ID Document Type Document Description	No of pages	Doc Date	Restric- tions
168798 CABLE BUDAPEST 1751	4	4/1/1982	B1

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

B-1 National security classified information [(b)(1) of the FOIA]

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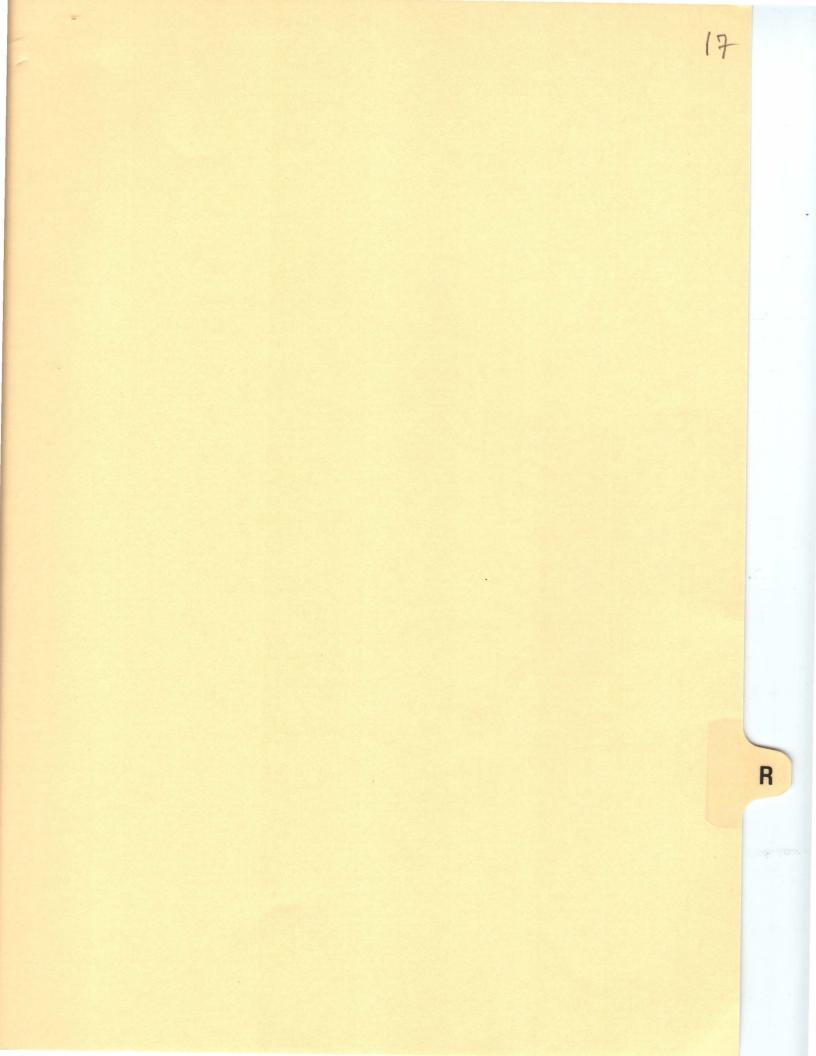
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168799 CABLE	10 3/30/1982 B1	

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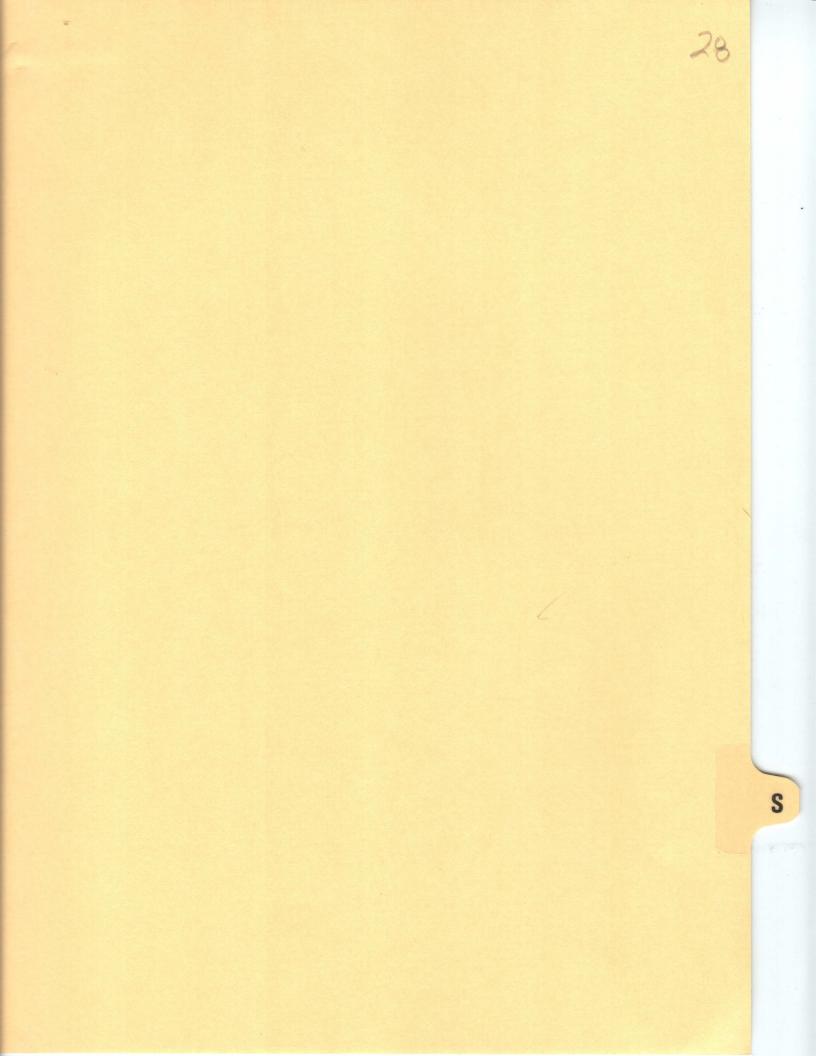
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ID Document Type	U	Doc Date	Restric- tions
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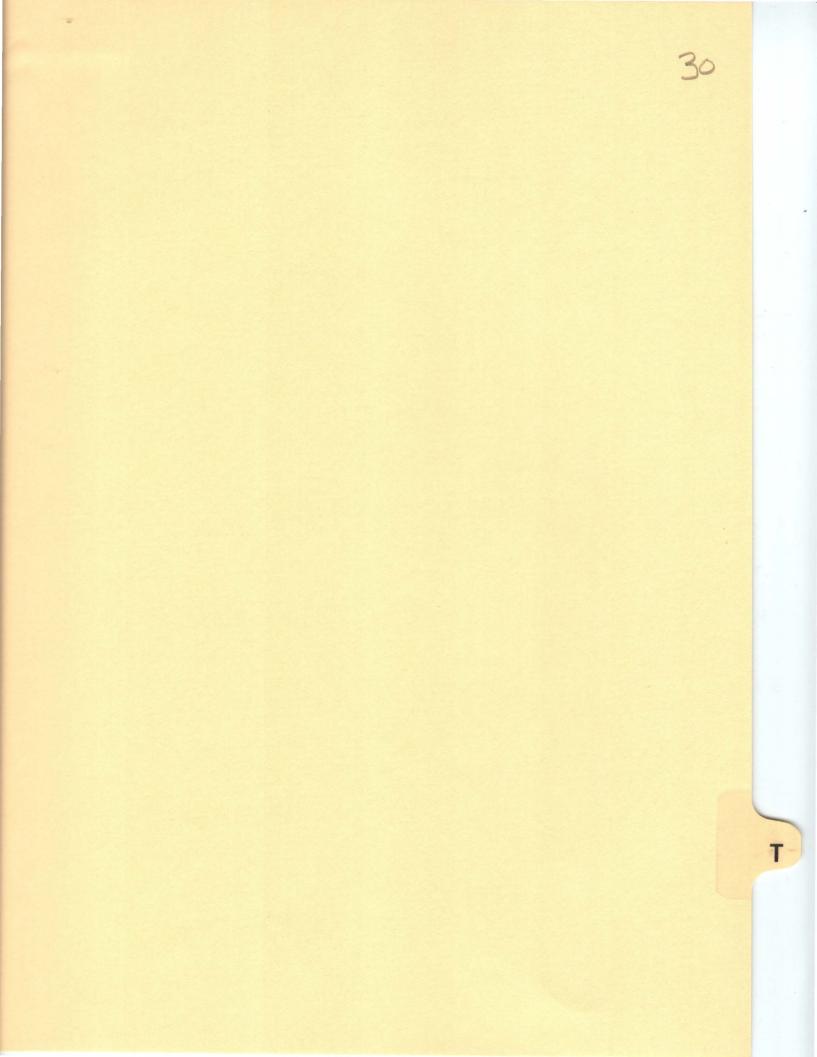
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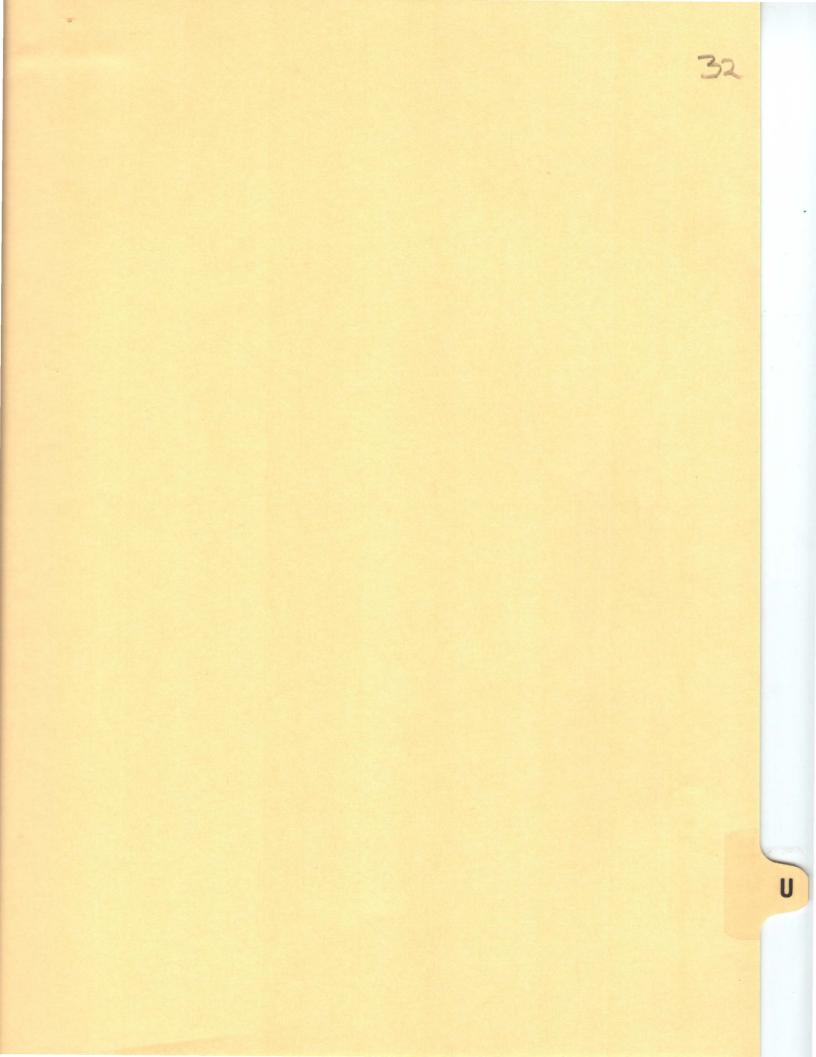
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168802	2 CABLE	1	4/1/1982	B1

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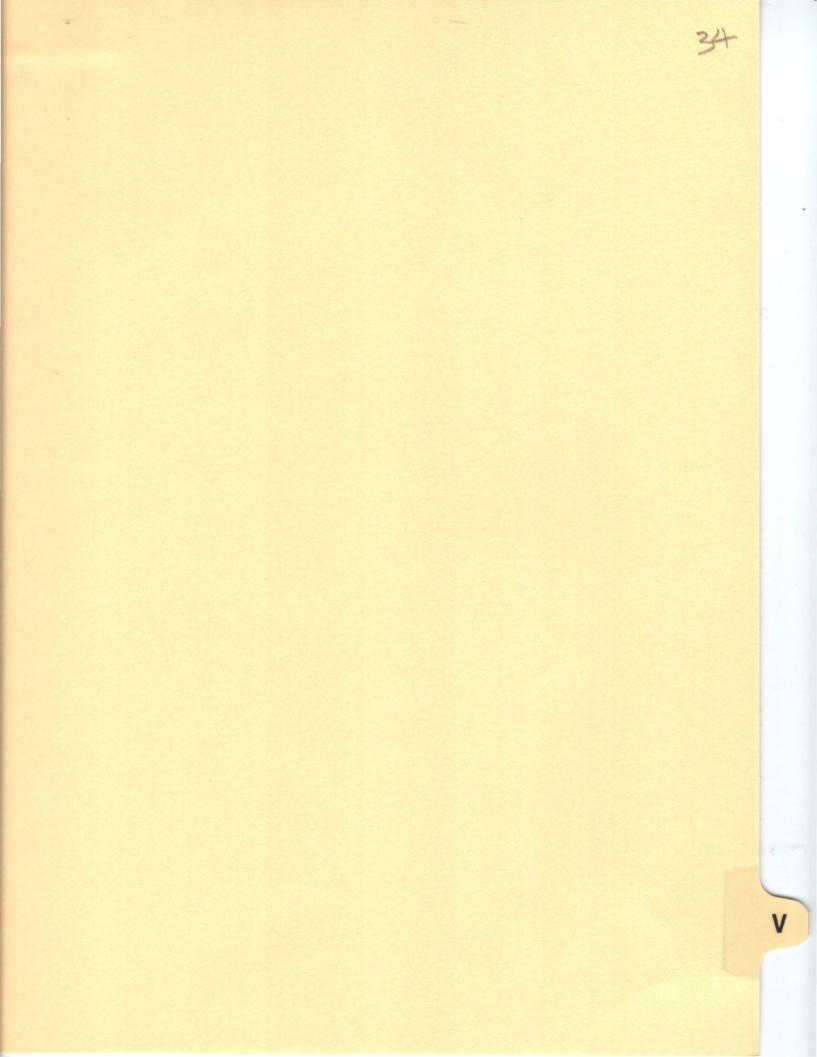
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168803 168803 011726Z APR 82	1 4/1/1982 B1

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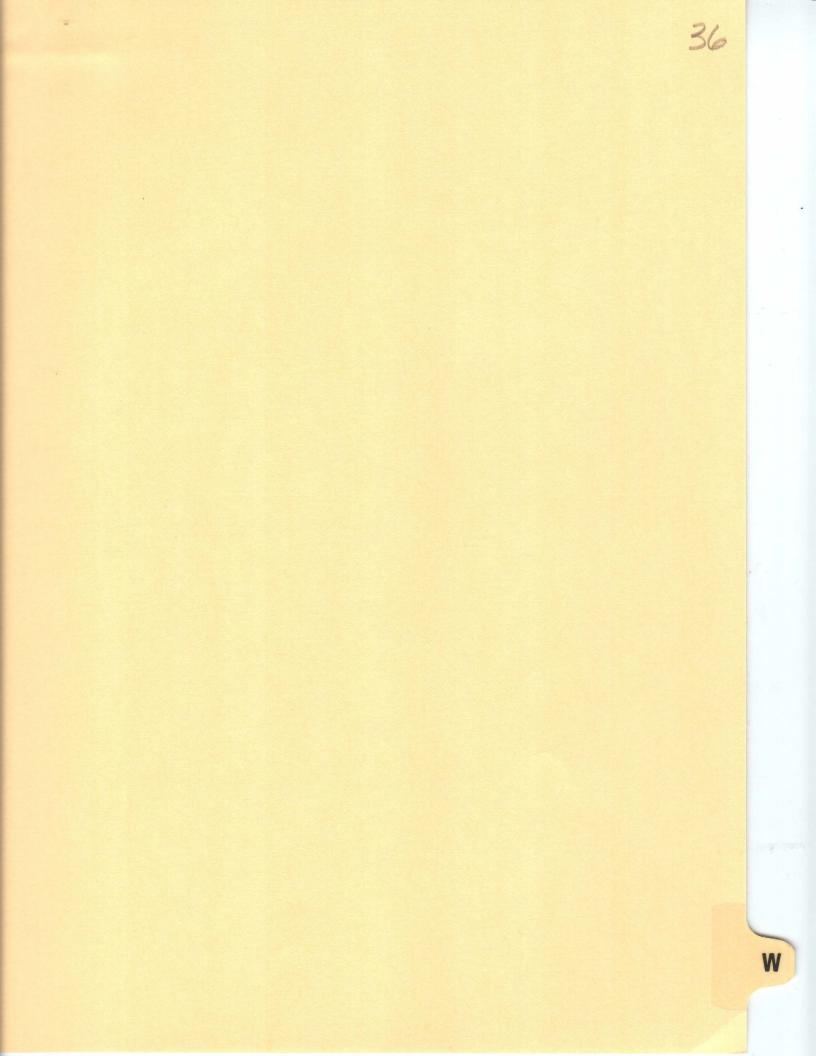
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### CONEHDENTIAL NATIONAL SECURITY COUNCIL MESSAGE CENTER

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E. 0. 12065: RDS-1 4/5/92 (WHITMAN, WILLIAM B.) OR-E TAGS: EFIN, YO SUBJECT: YUGOSLAV SHORT-TERM CREDIT SITUATION REF: STATE 88932

1. (GENTIRE TEXT).

2. SUMMARY. SINCE NEWS OF THE POSSIBLE CITIBANK-ORGANIZED SHORT-TERM CREDIT BEGAIN 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 BORROW-ING 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

TOR: Ø96/1154Z CSN: HCE361 EXPORT FINANCING. COLANOVIC ALSO THINKS YUGOSLAVIA SHOULD ALSO DRAW ON HITHERTO OVERLOOKED SOURCES OF CREDIT SUCH AS AGRICULTURAL PURCHSES UNDER THE CCC PROGRAM, AND DRAW DOWN LARGE UNUSED CREDITS FROMTHE 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 APYMENTS POSITION THUS FAR SHOWED AN OVERALL FIRST QUARTER DEFICIT SMALLER BY GOB NARA DATES 21/19 THIS YEAR THAN LAST. IN HIS VIEW, YUGOSLAVIA HAD A LIQUIDITY PROBLEM MAINLY BECAUSE A LACK OF CONFIDENCE BY FOREIGN FINANCIAL INSTITUTIONS IS BEING REFELCTED

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 ESSEN-TIALLY 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 NOV IN RESERVE WOULD BE SUFFICIENT TO TIDE THE YUGOSLAVS OVER. ANDERSON BT

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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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1. S- ENTIRE	TEXT).		
(PROTECT) TOLD U WORD OF THE PLAN AMBASSADOR COOM ASKED TO CONTACT MAKING STRONG RE	POLITICAL AFFAIRS DIRECTOP US APRIL 5 THAT THE GOS HA NNED JAPANESE LOAN TO THE ARASWAMY WAS BEING INFORME T THE DEPARTMENT SEEKING U EMONSTRATIONS WITH THE GO O DIRECTLY WITH THE JAPANE	AD RECEIVED SRV. HE SAID ED AND WOULD BE USG HELP IN J. ASEAN WOULD	
THIS JAPANESE PL PAST ASSOCIATION	TED THAT MITSUI INTERESTS Lan. He also said goj for N with the japanese-vietna Bably predisposes him to a The SRV.	NMIN SAKURAUCHI'S Amese friendship	
CAME FROM THE TH FROM TOKYO. STH HEAD OFF THIS LA POSSIBILITY. CO OF THACH'S IMMID OF A FALL-OFF B A JAPANESE LOAN	T WAS NOT CLEAR WHETHER GO HAI (PER BANGKOK 19852) OF RONG AND SPEEDY ACTION WIL ATEST MOVE, IF INDEED IT I OMING AS IT APPEARS TO BE NENT WESTERN EUROPEAN VISI Y SOME EUROPEANS FOR SUPPO WOULD BE A SIGNIFICANT SE . END COMMENT. THAYER	R INDEPENDENTLY L BE NEEDED TO (S A REAL IN THE CONTEXT (T AND MURMURINGS ORT TO DK SEATING,	

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