

# Yugoslavia to be put under IMF economic policies again?

by Luba George in Wiesbaden

As leaders of Yugoslavia, a charter member of the Non-Aligned movement, headed for the Non-Aligned summit in New Delhi, their country was coming under heavy pressure to accept a new round of ferocious austerity and business contraction—the price of a Bank for International Settlements bridge loan, the refinance of Yugoslavia's debt to foreign commercial banks, and the release of the third and last portion of a large International Monetary Fund credit. The pressure was extraordinarily great because of fear in BIS and IMF quarters that Yugoslavia might depart from its traditional policy of paying up, whatever the domestic cost.

At New Delhi, Yugoslavia's current president, Petar Stambolic, asked the Non-Aligned to consider that "elements of this [international economic] system, particularly in the financial area, have already collapsed." The question arises: will the Yugoslav leadership keep squeezing the economy for liquidity to pay into a system already deemed to have "collapsed"?

Vienna banking sources, among others, admit that an anti-austerity lobby inside Yugoslavia has an idea on which Yugoslavia might unite with its partners in the Non-Aligned movement. "There are some people in Yugoslavia," said one banker in late February, "who would like rescheduling without conditions, and would like to form a debtors' cartel which would also work with OPEC . . . as perhaps the only way they can overcome their political weakness."

Another Austrian banking source, on the inside of creditors' talks with the Yugoslavs, analyzed the delay on Yugoslavia's \$500 billion BIS bridge loan as follows: "This is a purely political move. The BIS refusal to give them money is part of the pressure put on Yugoslavia around the Non-Aligned meeting." In 1976, these bankers remember, the late President Josip Broz Tito's signature was on the Non-Aligned summit document that called for debt moratoria.

## Demand gold

Officially, Yugoslavia's debt is nearly \$20 billion, but unofficial bank estimates put it as high as \$24-\$27 billion. Interest and principal payments due this year total \$4.5 billion.

In early February, the BIS, central bank of central bank-

ers, convened a meeting in Basle, at which central bank representatives from various countries were to negotiate with Yugoslav officials. At issue was the \$500 million credit from the BIS, meant to tide over the Yugoslavs until the release of \$600 million by the IMF, which is supposed to occur in late March—if Yugoslavia has come to terms with the BIS and with a committee of commercial banks, from which Belgrade is seeking \$600 million in new credits and refinancing of \$1.4 billion 1983 payments due. The February session broke up without agreement, because the Yugoslav negotiators rejected the BIS demand that Yugoslavia put up \$200 million of its gold holdings as collateral for the loan. For the moment, the entire rescue scheme for the commercial banks' Yugoslav debt was placed in jeopardy.

The Austrian banker who saw the BIS pressure as political explained candidly the initial Yugoslav reaction: "Yugoslavia doesn't want to give up the gold because this is all they have left. . . . Once it's gone, confidence in Yugoslavia would disappear, and no *Gastarbeiter* [Yugoslavs working in West Germany, Sweden, etc.] would remit his savings into Yugoslav banks any more."

Even though the BIS loan was stalled, the Yugoslav delegation to New Delhi got a send-off from the consortium of commercial bank creditors, which made it known that their \$2 billion share of the international "rescue package" for Yugoslavia would be sufficiently determined by Feb. 28, the IMF's deadline, for the IMF to go ahead with preparations to release its credit. By March 6, the BIS had announced it would make \$300 million of its \$500 million bridge available to Yugoslavia immediately, holding the other \$200 million until Belgrade overcomes its objections, and gets clearance from its other creditors, to putting up its gold.

The BIS and commercial credits clear the way for the IMF monies, with a new round of austerity conditions attached. Not yet made public, these are expected to be the toughest measures yet for economic restructuring, wherein allegedly unprofitable projects and branches of industry will be scrapped.

The Yugoslav economy is already laboring under the severe strain of 32 percent inflation (1982, down from 40

percent in 1981). The dinar was devalued by 20 percent last year. The announced energy plan incorporates a deficit of 4 billion kilowatt-hours, which means sporadic blackouts in cities and factories. On Feb. 17, party leader Mitja Ribicic stated that gasoline rationing would have to be continued past March 1.

Under these conditions, the majority's policy of paying the debt, no matter what the cost, is less and less tenable. The "some people" cited by the Austrian source as advocates of a debtors' cartel fear that the economic destabilizations of today will breed political chaos and ethnic fragmentation among Yugoslavia's many nationalities tomorrow.

### **Balkan "catastrophe"?**

The BIS brinkmanship caught Yugoslavia between East and West, the precarious strategic position that prompted Tito to be a Non-Aligned leader 30 years ago. The worse its relations with the IMF and BIS, the less Yugoslavia will trade with the West, and the greater will be its dependency on the U.S.S.R. and other East European trading partners. This has been a trend for three years. One banker put it, "The name of the game is pay gold, or pay Andropov."

Munich and Vienna sources who watch the Balkans closely report increased Soviet political activity in Yugoslavia and neighboring countries since Yuri Andropov became general secretary. In the same period, the Soviets have sent signals that the amount of oil and coal delivered to Yugoslavia may be cut. One conclusion from this is that Moscow will exact a political price for economic favors to the Yugoslavs. In any event, economic starvation by the West can only force Yugoslavia to the East.

Compounding Belgrade's political plight is the post-Tito institution of collective leadership, whereby the national presidency and the party leadership both rotate every year. This system is hardly conducive to bold political initiatives, but provides a framework in which Yugoslav agents of the IMF—like the Yugoslav members of the Brandt Commission on North-South relations—can exert a steady influence on the leadership consensus.

Creditors, all too aware of this situation, exploit it. Typical of their views are the recent remarks of one Austrian banker, that "Yugoslavia is on the brink of catastrophe. . . . The situation is a mess, with the collective leadership. Nothing gets done."

His recommendation was a leap from frying pan into fire: "Yugoslavia needs a dictator" to run its austerity program. He is not alone in such thinking; Balkan church sources have put out alarms that a coup by Serbian military officers might rock Yugoslavia in April, and obtain Soviet support.

Obviously, Yugoslavia needs neither a weak collective leadership nor an Austrian-model dictator. Under pressure from both West and East, lacking Tito who, in the words of one observer, "knew how to play them both off," Yugoslavia could find its best hope in the Non-Aligned movement it co-founded—by putting together the debtors' cartel that so unsettles the gentlemen at the BIS.

## **British Foreign Office: 'Time to squeeze Poland'**

A meeting of foreign ministers of the European Community countries decided March 1 to reopen the issue of Poland's debt to government lending institutions in these and other Western countries. Nothing has been paid on Poland's \$14 billion since Dec. 31, 1981, and there have been no talks about rescheduling it, because such talks, under the auspices of the "Paris Club" of creditor nations, were suspended by the West when Gen. Wojciech Jaruzelski declared martial law.

The man who went to the press with the story of renewed pressure on Poland was Douglas Hurd of the British Foreign Office. He told reporters that Poland's "de facto debt moratorium" was quite "absurd," and that it was time to "call the Poles to account."

Also in the first week of March, Swiss banking sources said that some commercial banks to which Poland owes money might declare Poland in default on 1983 payments (the commercial debt also stands at near \$14 billion, but 1982 payments in this case were rescheduled), if steps were not taken before the end of the first quarter, towards their renegotiation.

There are two motives for stepped-up pressure on Poland right now. One is the nagging worry on the part of creditors that the Poles will decide to join with other big debtors in a cartel. Such a cartel would have enough clout to obtain not only long-term rescheduling on favorable terms, but the real wherewithal for international economic recovery: new, low-interest credits for investment in industry. Poland has difficulties with some of these potential allies (in February a Warsaw delegation was trying to work out barter deals to cover some of what Poland owes Brazil, itself the world's biggest debtor), but the idea of a joint policy is still alive.

The other purpose stems from resolution of the Paris Club business being considered a precondition for processing Poland's application to join the International Monetary Fund. Particularly the Swiss and British circles which want the IMF to act as a world central bank to police a disintegrating world economy consider signing up Poland a major inroad into Eastern Europe, a token of Warsaw Pact acquiescence in this scheme.

Poland's policy is to pay its debt, but Polish officials keep talking about the need for terms that allow the Polish economy to build up some basis for genuine recovery. Therefore, the Polish response to specific demands of the creditor banks or of Douglas Hurd & Co. is not entirely predictable by the creditors.