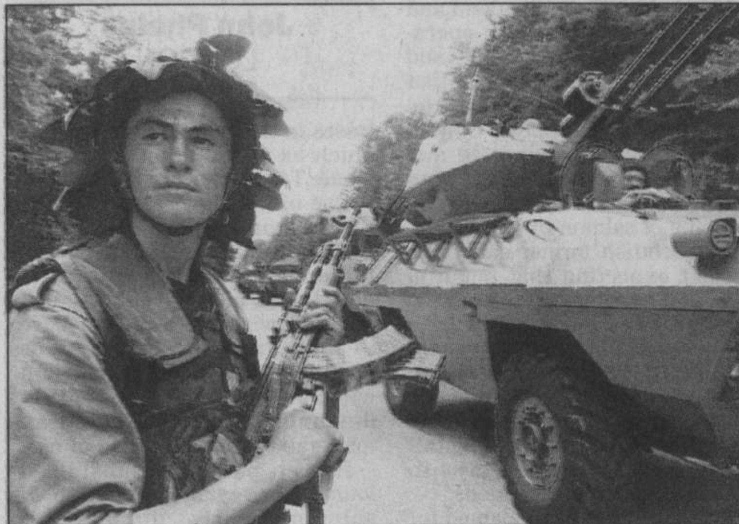
Banks set for $7.2bn default

PAUL LOWE



Too much Yugoslav cash has been spent on weapons

Matthew Crabbe
LONDON
THE EUROPEAN 13/7/91

BANKERS are bracing themselves for a massive $7.2 billion debt default as the Yugoslavian federation teeters on the brink of collapse.

Such a default, caused by the break-up of one country into several, would be unprecedented, and could itself set critical legal precedents for future western lending to independent Soviet republics. Around $10 billion of other Yugoslavian debt, owed mostly to sovereign lenders, is also at stake.

David Roche, managing director in charge of strategy at Morgan Stanley in London, says a default is inevitable. Yugoslavia has already lost most of the $3 billion in hard currency receipts from tourism and the $8 billion of remittances from expatriate workers it could otherwise have counted on this year.

Seven billion dollars of Yugoslavia's hard currency income flows through Croatia, which not only has the bulk of the tourist industry but also a small trade surplus with the rest of the world. Without it the National Bank of Hungary, which assumed responsibility for all Yugoslavia's bank debt when it was rescheduled in 1988, would find it virtually impossible to find the $1.5 billion it needs annually to meet the cost of servicing the debt.

Although both Slovenia and Croatia have indicated that they might each take between 15 per cent and 25 per cent of the federal debt, these offers were premised on an agreed split from the federation. In the event of the current fragile peace disintegrating once again, they would be unlikely to be made again, bankers fear. "For the banks, a default would not be a crippling issue because many of them have provided against their exposures," says Morgan Stanley's Roche. "But it would cause a major problem for Yugoslavia which needs substantial aid."

Yugoslavia's debt is relatively small by eastern European standards, equivalent to 33 per cent of GDP and 84 per cent of export revenues. Under the rescheduling agreement for 1988, Yugoslavia does not have to start principal repayments until late 1994, and over recent years has reduced its debt by $2 billion through secondary market repurchases. In May, the National Bank made a $65 million interest payment for its restructured loans on time.

However, the dire shortage of hard currency available to Yugoslavia has become increasingly obvious, with private customers finding it nearly impossible to withdraw their dollar deposits from retail banks there.

Next week the National Bank is due to make a $20m interest payment on deposits and trade credits extended by its foreign banks.

Privately, bankers admit that they are already discussing the likelihood of a default. Despite all the legal uncertainties, some remain optimistic. One senior German banker told *The European*. "We are already calculating how we will distinguish between the creditworthiness of states involved."