

By 5/11/50 Date 5/11/78



FN 14 AFG
xc SOC 10 AFG
Department of State
TELEGRAM

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Kabul 5041
8-16-71

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ACTION: NEA-11

INFO: OCT-01 EUR-14 EA-11 TRSE-00 TRSY-11 E-11 AID-20 XMB-06
FRB-02 AGR-20 COM-08 IO-11 CIAE-00 DODE-00 PM-06 H-02
INR-06 L-03 NSAE-00 NSC-10 P-03 RSC-01 PRS-01 SS-14
USIA-12 RSR-01 185 W

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R 161002Z AUG 71
FM AMEMBASSY KABUL
TO SECSTATE WASHDC 5962
INFO AMEMBASSY BONN
AMEMBASSY ISLAMABAD
AMEMBASSY LONDON
AMEMBASSY MOSCOW
AMEMBASSY MANILA
AMEMBASSY NEW DELHI
AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY TEHRAN
AMEMBASSY TOKYO
USMISSION EC BRUSSELS

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SUBJECT: AFGHAN REQUEST FOR DEBT MORATORIUM
- POLIS-1 AFG xc ES AFG xc FN 14 AFG
REFS: (A) KABUL 4841 (NOTAL); (B) KABUL 4851 (NOTAL);
(C) KABUL 4853 (NOTAL); (D) KABUL 4971 (NOTAL)

MANILA FOR US ADB REP

1. BEGIN SUMMARY: I SAW RGA FINANCE MINISTER DAWARI AT HIS REQUEST MORNING AUGUST 14. HE SAID USG FIRST GOVERNMENT HE APPROACHING WITH REQUEST FOR FAVORABLE CONSIDERATION OF DEBT MORATORIUM AT LEAST UNTIL MARCH 21, 1972, AND POSSIBLY UNTIL MARCH 21, 1973. I RESPONDED THAT EMBASSY WOULD RECOMMEND SYMPAETIC CONSIDERATION OF AFGHAN REQUEST BUT THAT THIS MATTER FOR MULTILATERAL ACTION AND FORMAL

(2)

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RESPONSE WOULD HAVE TO BE IN THOSE TERMS. END SUMMARY

2. I SAW RGA FINANCE MINISTER DAWAR MORNING OF AUGUST 14. MOHSENI, DIRECTOR, ECONOMIC RELATIONS, MFA, AND CHIEF, EMBASSY ECONOMIC SECTION ALSO PRESENT. DAWAR OUTLINED BRIEFLY FINANCIAL SITUATION INDICATING THAT GOVERNMENT INCOME INCREASING PROBLEM IN RELATION TO EXPENSES, ESPECIALLY SINCE REVENUES DECLINING AT TIME WHEN EXPENDITURES INCREASING TO MEET DROUGHT EMERGENCY.

HE NOTED SPECIFICALLY THAT GOVERNMENT HAD BEEN FORCED TO TAKE INTENSIVE AND RAPID STEPS FOR ACQUISITION OF FEED FOR ANIMALS AND DRILLING OF DEEP WELLS FOR DRINKING WATER. HE SAID THAT UNDER CIRCUMSTANCES, RGA FORCED TO THINK ABOUT MEANS OF CUTTING EXPENDITURES, INCLUDING MORATORIUM ON FOREIGN DEBTS. HE SAID THAT RGA CONFIDENT THAT FRIENDLY COUNTRIES HAVE A SYMPATHETIC UNDERSTANDING AND THAT DETAILS WOULD HAVE TO FOLLOW SUCH CONVERSATION AS THIS ONE. HE ASKED FOR EXPRESSION FROM US OF HOW WE VIEW PROBLEM.

3. I SAID WE DO HAVE REAL UNDERSTANDING OF EXCEPTIONAL AND UNUSUAL PROBLEM FACING AFGHANISTAN BUT THAT, OF COURSE, OFFICIAL ANSWER REGARDING MORATORIUM WOULD HAVE TO COME FROM WASHINGTON. I ADDED THAT I WAS CONFIDENT THAT DEEP UNDERSTANDING OF U.S. MISSION IN KABUL WOULD BE REFLECTED IN OUR CAPITAL.

4. IN RESPONSE TO MY QUESTION ABOUT FORM AND TIMING OF MORATORIUM. DAWAR SAID THESE HAD NOT YET BEEN IRONED OUT IN DETAIL. HE SAID, IN BROAD TERMS, THAT INITIALLY THERE WOULD BE REQUEST FOR MORATORIUM UNTIL END CURRENT AFGHAN YEAR, MARCH 21, 1972; BUT, IF GENERAL CONDITIONS IN AFGHANISTAN DID NOT IMPROVE BY THAT TIME, IT LIKELY RGA WOULD REQUEST CONSIDERATION MORATORIUM FOR ANOTHER YEAR. HE ADDED THAT RGA DOES NOT WISH TO USE THIS STEP AS MEANS OF FINANCING NORMAL AND ROUTINE EXPENDITURES; BUT, IN VIEW EXPECTED DECLINE IN REVENUES AND EXPORTS (LOSSES FROM EXPORT OF KARAKUL AND WOOL, FOR EXAMPLE), AND THEIR UNFAVORABLE IMPACT ON DIRECT TAXATION COULD FORCE A TWO-YEAR PERIOD. HE SAID THAT THERE WERE NUMBER OF APPROACHES TO MORATORIUM; SUCH AS, REDUCTION IN AMOUNT OF INTEREST ONLY, POSTPONEMENT OF PAYMENT DUE DATES, POSTPONEMENT OF PAYMENTS OF BOTH INTEREST AND PRINCIPLE, ETC.

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5. I REITERATED THAT MISSION SYMPATHETIC AND HOPED MY GOVERNMENT WOULD BE AS WELL AND THEN NOTED THAT U.S. DEBTS WERE MODEST IN RELATIONSHIP TO OTHERS, ESPECIALLY USSR, AND ASKED IF THERE HAD BEEN ANY REACTION FROM USSR ON SUCH AN APPROACH. DAWAR STATED MEETING WITH ME WAS FIRST APPROACH AND COMMENTED IT TRUE U.S. DEBTS MODEST RELATIVE TO USSR WHICH IN FIRST PLACE. HE NOTED THAT IMMEDIATELY FOLLOWING MY VISIT HE WAS SPEAKING WITH WEST GERMANY CHARGE. HE ADDED THAT SOVIET AMBASSADOR IN MOSCOW AND THAT HE WOULD BE SEEKING MEETING WITH SOVIET CHARGE. HE ALSO NOTED THAT HE WOULD BE HEADING DELEGATION TO IBRD ANNUAL MEETINGS IN WASHINGTON IN SEPTEMBER.

6. I URGED THAT RGA CONSULT NOT ONLY WITH GOVERNMENTS BUT ESPECIALLY WITH IMF. I POINTED OUT THAT IN SUCH A MORATORIUM EXERCISE AS THIS, IMF AND WORLD BANK PLAY KEY COORDINATION ROLE. IN ORDER INSURE DAWAR UNDERSTOOD THAT THIS IS INTRICATE UNDERTAKING, I SUGGESTED, INFORMALLY, THAT CONSIDERATION WOULD HAVE TO BE GIVEN TO VARIOUS KINDS OF DEBTS, FOR EXAMPLE, IN CASE OF USG THERE ARE EXIM, USAID AND ITS PREDECESSORS, PL 480, AND POSSIBLY PRIVATE CREDITS. HE SAID HE UNDERSTOOD BUT THAT THESE WERE TECHNICAL POINTS THAT WOULD HAVE TO BE SPOKEN TO LATER; HOWEVER, I WANTED TO BE AS SURE AS POSSIBLE THAT RGA UNDERSTOOD THAT THIS NO RPT NO EASY PROBLEM.

7. FRG CHARGE KILIAN AND ECONOMIC COUNSELOR VON JENA CALLED ON ME AND COHN, RESPECTIVELY, FOLLOWING THEIR MEETING WITH DAWAR. THEY REPORTED SCENARIO MUCH AS ABOVE. HOWEVER, DAWAR TOLD THEM HE WOULD NOT RPT NOT BE SEEING SOVIET CHARGE AND WOULD AWAIT RETURN SOVIET AMBASSADOR AND ALSO RGA WOULD WAIT UNTIL IBRD MEETINGS IN SEPTEMBER TO APPROACH IMF. ON AUGUST 15 COHN INFORMALLY SPOKE WITH MOHSENI AND SUGGESTED RGA INSTRUCT MALIKYAR CALL ON IMF IN WASHINGTON AND ALSO INFORMALLY DISCUSS SITUATION WITH KAYEUMI OF IMF WHO PRESENTLY IN KABUL ON VACATION. IMF RES REP SELBY DEPARTED KABUL FOR WASHINGTON ASSIGNMENT AUGUST 12; HIS REPLACEMENT NOT RPT NOT DUE UNTIL SEPTEMBER.

8. COMMENT: MORATORIUM REQUEST HAS BEEN EXPECTED AS INDICATED IN REFERENCES. MOHSENI INDICATED THAT MFA WOULD BE PRESENTING US WITH FORMAL NOTE ON THIS. WOULD APPRECIATE DEPARTMENT ADVISING IMF OF THIS APPROACH AND THAT DEPARTMENT AND IMF WILL WORK CLOSELY ON MATTER. WOULD ALSO APPRECIATE EARLY GUIDANCE.
DECONTROL: 8/72.

NEUMANN.

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