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PRIME MINISTER

ZIMBABWE DEBT

In my letter of 27 May to the Foreign Secretary, I set out the proposed negotiating line for the talks with officials of the Zimbabwe Government on the outstanding debts of its predecessors.

2. I subsequently met the Foreign Secretary and the Lord President, and agreed with him the full extent of the concessions which could, if necessary, be made in order to secure a quick settlement of this outstanding issue. We all agreed that it could develop into a running sore if not dealt with speedily.

3. In the event, the Zimbabwe officials proved to have discretion to accept a settlement which is reasonably satisfactory to HMG. They have accepted responsibility for almost all the capital debt outstanding (amounting to £54.8 million), together with interest accrued on it up to the original maturity dates. (We abandoned certain small claims against them, notably one for payment for some aircraft which were later used to bomb Mr. Mugabe: the Foreign Secretary felt that we could not reasonably press for this).

Prime Minister 2.  
Chanalla reports  
satisfactory solution on  
Zimbabwe Debt - both  
public + private. In fact,  
he would have been  
prepared to make further  
concessions, but this  
proved unnecessary.

MAD  
13/51





4. Zimbabwe refuses to accept responsibility for interest on any of these loans beyond the original maturity dates. It regards the default as the action of the illegal regime, for which it cannot answer and should not be required to pay. We did not formally accept this argument, but we have not pressed them for this "compensation interest". The sum involved is of the order of £30 million. There was never any realistic chance of recovering this.

5. The debt outstanding will be repaid over 10 years, with a grace period of 2 years. Interest will be paid throughout at a concessionary rate of 8 per cent. This is slightly less than the rate normally applying in debt rescheduling cases, but was justified in the special circumstances of the Zimbabwe settlement.

6. In parallel, talks have gone on between Zimbabwe and the Council of Foreign Bondholders. The Council (led by Lord Trevelyan) initially tried to drive a very hard bargain, but in the end a very satisfactory compromise seems to have been reached. We played some part in this as a go-between, and the Bank of England was heavily involved.

7. Overall, I regard this as a satisfactory outcome of a difficult problem. I would have been prepared if necessary to make further concessions in order to secure a quick settlement, as the Foreign Secretary urged me strongly to do. But this was not needed. A settlement of this kind should help to re-establish Zimbabwe in international capital markets and improve its chances of satisfactory negotiations with the IMF and perhaps in due course the IBRD.



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8. An interim announcement is being made on Friday. Parliament will be informed by way of a written PQ next week.

9. I am sending copies of this minute to the Foreign Secretary, the Lord President of the Council, the Secretary of State for Defence, the Secretary of State for Trade and to Sir Robert Armstrong.

(G.H.)

13 June 1980

CONQUEROR