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PRIME MINISTER

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Paul

POLISH DEBT

We agreed in OD on 12 February that we should be prepared to play our part in a multilateral debt settlement with Poland on certain conditions.

2. At a meeting of Poland's creditors in Paris last week, agreement in principle was reached that such a settlement was now desirable. All parties are now aiming at an agreement covering the second half of 1981 and the whole of 1982. The details will be hammered out in negotiations in Warsaw and Paris over the next few weeks, and Ministers will need to take a decision on the firm proposals before Easter.

3. Meanwhile, it will be necessary to renew the bridging operation which was mounted for the first quarter of 1981. The OD decision recognised the possible need for this, so I am now reporting, for colleagues' information, that I have authorised a refinancing loan (guaranteed by ECGD) of £20 million to cover two-thirds of maturities of guaranteed debt arising in the second quarter of 1981. I am also prepared to authorise further credit of £12 million in the second quarter, to cover expected sales of agricultural products to Poland in that period. However, the Poles will not be told of this second approval until later in the month. This leaves about £8 million left out of the £40 million new credit which OD approved for the whole of 1981.



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4. Meanwhile, ECGD is keeping cover available for Poland for short-term business within a total of about £10 million outstanding at any one time. We shall need to review this decision when the longer-term settlement is ready for approval.

5. As for the form of the longer-term settlement, OD invited me to consider, with the Secretary of State for Trade and the Lord Privy Seal, whether we should proceed by refinancing or rescheduling Polish debts. I understand that a paper on this subject is almost ready, which I hope to discuss with the other two Ministers concerned in the near future.

6. I am sending copies of this minute to the Foreign Secretary and the other members of OD, to the Minister of Agriculture and to Sir Robert Armstrong.

(G.H.)

5 March 1981

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