Mr Coles Hungary

To see

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HUNGARY

I am writing to record the outcome of the further discussion of the question of Bank of England participation in the proposed $100 million credit facility being organised by the BIS for the National Bank of Hungary.

At his meeting with the Chancellor on 29 March the Governor said that, having taken full account of the points made in the Chancellor's letter of 24 March, he remained firmly of the view that it would be wrong for the United Kingdom to stand aside from an urgent operation to which he believed the other European banks would agree. German participation was already certain. The Governor added that he believed that a 20% share was the minimum appropriate to the UK role in the European banking system. Following discussion of the difficulties of a Government guarantee both at that meeting and later in the day, the Governor indicated that he was prepared to withdraw his request for this: the Bank would carry the risk. It emerged in the course of the day that the remaining proposed participants, other than France, had indicated readiness to take part in the BIS loan.

Of the issues considered at the meeting with the Chancellor, there remained the question of US attitudes and also the possibility that an early reply to BIS might cut across discussion at the European Council.

On the first question, we were able to establish from Washington in the course of the day that following a meeting of the Departments concerned the US authorities were not disposed to stand in the way of a BIS loan: and would also agree to Hungarian membership of the IMF. This has subsequently been confirmed in

Washington Tel no 1036, although the statement of neutrality there is rather less benevolent than we had perhaps understood the position to be.

As regards the European Council, we had arranged with No 10 to be informed of any significant developments that end. By the conclusion of the Council we had heard nothing in any untoward sense. This opened the way to your giving a positive response to the BIS before close of business on 30 March. I accordingly informed you that the Treasury would not see any objection to your confirming to BIS the Bank of England's readiness to participate in the Substitution Agreement on the basis of a maximum figure of $20 million.

We have had some more detailed exchanges on the text of the agreement. It would be helpful if we could see a copy of the text as it finally emerges. It would also be helpful if you could keep us informed of the timing of any announcement that the BIS may in due course make about those arrangements.

R G LAVELLE

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Your Ref

with compliments

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