

NOTE FOR RECORD

3/4 7/4

Copies to: The Governor
The Deputy Governor o/r
Mr Loehnis
Mr George
Mr Balfour
Mr Dawkins
Mr Holland
Mr Sangster

THE GOVERNOR'S CONVERSATION WITH VOLCKER

Volcker telephoned the Governor at 5.40 pm this afternoon. Were we anticipating much trouble in the foreign exchange markets, Volcker asked. The Governor described recent developments. Volcker volunteered assistance in the days ahead - not least over Easter when the US market would be open on Friday and Monday while the London market was closed. He said that he was keen to do nothing that would aggravate the situation and asked whether there was anything that he could do that would be helpful. The Governor expressed his gratitude and said that he would revert to Volcker if anything seemed necessary. The Governor said that the two weeks ahead seemed likely to be difficult - what would happen would depend on developments as the fleet neared Argentina and on the success of diplomatic moves in the meantime. The market was full of rumours - the current one was that Haig had succeeded in persuading the Argentinians to withdraw. Volcker said that he would be in touch with the State Department and make other preparations.

The Governor also mentioned the problems that arose from the decision to freeze Argentinian assets and explained that we were trying to behave as reasonably as possible in this. It was not clear how quickly Argentina's financial position would deteriorate. He supposed that people in the US markets would not be keen to put money into Argentina in the present circumstances. Volcker said that he had no particular information on this.

The Governor then referred to Hungary, telling Volcker that the \$100 mn support was now in place. There would be further discussion at the next Basle, by which time he hoped that the Hungarians would have given a much fuller picture of their financial position. Volcker said that he had spoken to Leutwiler a week ago. Since

then he had become 99% certain that the US would not block efforts to support Hungary or Hungary's joining the IMF - although nothing positive could be expected either. The Governor said that this would be helpful. He was keen to see the "swimmer reach the shore" - for Hungary to join the IMF. He hoped that this process would encourage the banks to maintain and indeed increase their support. The Governor emphasised the importance of differentiating between countries within the bloc. The fruits of detente should not be thrown away - but this was quite different from saying that pressure should not be put on the USSR. Volcker responded that the principle of differentiation was now accepted in most quarters in the US, but not universally. For example, the Department of Defense had the other day been growling at the banks in a fashion quite independent from the rest of Government.

Volcker said that he would be out of town for some part of tomorrow (Thursday), in New York on Friday and back in Washington on Monday. The Governor said that he would be in the country over the weekend but urged Volcker not to hesitate to call him if necessary.

TSA

Governor's Office HO-P
7 April 1982

T E Allen (4121)

J. G.

12 JUN 1985