

THE GOVERNOR

Copies to Mr Loehnis
Mr Balfour
Mr Holland
Mr P J Bull

HUNGARY

As agreed, I asked Lord Sandon to come in this afternoon. I started to explain that my reason for wanting to speak to him was that we had got the idea that NatWest might be withdrawing or not renewing deposits with Hungary; and that, if so, I wished to represent the importance in this context, analogously with a domestic Stone-Platt kind of situation, of solidarity among the banks. We did not believe in putting pressure on banks actively to lend to particular countries; but we felt it was appropriate in occasional difficult circumstances such as the present one for Hungary to ask that they not rock the boat.

I had not got very far into this when Sandon broke in to say that I should know that Timar had spent an hour with him that morning. He had against the advice that Harry Taylor told me he had given Timar urged NatWest to join a syndicated loan that was being mounted "for \$250 mn". The NatWest reaction had apparently been positive in principle and Eric Carter was going to see Harry Taylor this afternoon.

I said I was delighted to hear this. My concern had been that the banks putting up such a loan could be reassured as firmly as possible that the money would not be used to allow other banks to get out. He said that, although for the last three years NatWest had reduced their exposure to the Comecon bloc and had refused, he thought five times, to join in new loans, he did not believe there would be any case of running

off deposits with Hungary. They certainly put Hungary in a different category from the other Comecon countries, and in any case he thought any deposits they had with them were small. [I] still have a slightly uneasy feeling that neither Leigh-Pemberton or Sandon has been fully aware of recent action on deposits with the Hungarian National Bank: but it looks as if they will be firm from now on, at least at present levels, whatever they are.]

This morning (6 May) Sandon rang back to say that, subject to general conditions approved by the syndicate NatWest had agreed to participate in the loan. He also told me that group deposits with Hungary are \$9 mn. He was not sure how this compared with earlier levels but doubted that there had been much reduction over the past three years. Group exposure to Hungary amounted to \$61.7 mn in facilities of which \$59.4 mn was utilised.

Cwm

5 May 1982