

NOTE FOR RECORD

Copies to: The Governor
The Deputy Governor
Mr Loehnis
Mr Balfour
Mr P J Bull

HUNGARY

The Governor telephoned Günther Schleiminger at the BIS, in Leutwiler's absence, yesterday afternoon. He first asked Schleiminger whether there had been any further developments with regard to Hungary. Schleiminger replied that there had not been: the next contact with Timar and Fekete would be on Sunday 13 June during the Basle AGM.

The Governor then explained that Manufacturers Hanover Trust had been assembling information in Budapest to pass on to those banks that they were trying to involve in the loan they were putting together for Hungary. It had emerged that Fekete had given MHT the impression that he expected to be granted a \$300 mn standby at the BIS AGM. The commercial banks had been asked to complete their arrangements by that time, the impression being conveyed that the BIS would not put the standby in place unless the commercial banks had come up with their money. The Governor said that this was a very worrying development because a standby had not been promised and, indeed, it had been made clear to the Hungarians that the last \$110 mn represented all that they could expect from the BIS. Could Schleiminger shed any light on the Hungarian insinuations?

Schleiminger was categorical in his denial that any encouragement had been given to the Hungarians to believe that they would be granted a standby (of \$300 mn or a smaller amount) either at the AGM or later. Fekete had spoken to Leutwiler at Helsinki and had warned that they would probably want to come back on the question of a standby, but nothing had happened since; and Fekete had not been encouraged by Leutwiler to believe that any such approach would be successful.

The Governor said that we must clearly not allow MHT to put out figures to the British banks which suggested that the standby was available. But this would be very damaging to the Hungarians.

Schleiminger offered to call Timar or Fekete to warn them of the danger and to reiterate the position. The Governor asked him to hold back from doing anything until he had consulted his colleagues in the Bank.

The Governor called Schleiminger again this morning and said that, on further consideration, he would prefer Schleiminger to do nothing. The Governor suggested that the MHT people were likely to say to Fekete that the implication that the standby would be available would clearly be regarded as an important factor by the banks and that they (MHT) would therefore like to speak directly to the BIS (as they had done to the IMF) in order to confirm the information. This should precipitate a call to the BIS by Fekete and that should allow a resolution of the situation.

Schleiminger entirely accepted this advice and said that he would report these developments to Leutwiler (whom he will be seeing in Zurich when the latter returns from leave on Wednesday 9 June).

Governor's Office HO-P
4 June 1982

S P Collins (4122)

SP

See
25 APR 1985