

SECRET

29. 6.82

NOTE FOR RECORD

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

HUNGARY

Dr Timar telephoned the Governor from Budapest this afternoon, with Dr Fey interpreting. Timar said that the BIS Board would be discussing their request for a standby credit on Monday 12 July. The Hungarians set out their case in a letter which had been handed to Leutwiler yesterday. Leutwiler had promised his support for their request, but the Hungarians realised that the decision did not rest solely with him. They particularly wished to let the Governor know right away and to try to enlist his support.

Timar went on to say that the Hungarian government had accepted the need for policy adjustments of the sort impressed on him in London by the Governor. They had implemented considerable measures to create equilibrium in the balances of trade and payments, and had taken action in a number of other areas listed in the letter.

The club deal involving 8-10 international banks was close to finalisation. But the banks required as a condition precedent for their participation that the BIS standby should be in place. Timar insisted that, if he could get the commercial loan, he would not need to touch the standby - or, if he did, it would be for a very short term. If the standby could be arranged Timar promised not to disturb the Governor again.

The Governor, in reply, pointed out that he could not give an answer: that was for the BIS. He added that the Bank had a real problem about how far we could go since we were carrying the risk ourselves - which he was sure the Hungarians well understood. Timar responded that if the commercial loan were realised, the Hungarians' problems would be solved; but, he reiterated, that

SECRET

2

depended in turn on establishment of the standby facility. He promised that, if we needed any further information or data, the Hungarian National Bank would be at our service - although he considered that the letter would be adequate in this respect. His final argument was that the importance of securing the standby and hence the commercial loan had international ramifications transcending the purely Hungarian case.

He concluded by thanking the Governor for everything that he had done to help Hungary so far.

Governor's Office HO-P
29 June 1982

S P Collins (4122)

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25 APR 1983