

NOTE FOR RECORD

Copies to: The Governor  
The Deputy Governor  
Mr Loehnis  
Mr Balfour

## HUNGARY

The Governor telephoned Fritz Leutwiler this afternoon to report on Timar's telephone call yesterday. The Governor briefly retailed the essence of what Timar had told him. Leutwiler responded that he had earlier told Timar that a condition for his discussing a possible standby for Hungary at the July Basle was receipt of the letter which had now arrived.

The Governor then said that he thought it right to tell Leutwiler that Timar had alleged that he (Leutwiler) had expressed his support for the Hungarian application. Leutwiler denied that he had been so careless. He had told Timar that negotiation of the standby would be extremely difficult, if not impossible, and that in the first instance a letter showing how their balance of payments could move through equilibrium this year to surplus in 1983 or 1984 was necessary. Leutwiler had left it to Timar to contact other Governors if he felt fit, although Leutwiler said that he would be seeing Pöhl and Duisenberg himself.

Leutwiler conceded to the Governor that he was himself in favour of discussing the matter at the July Basle. He confirmed, incidentally, that he had received an accompanying letter from Timar indicating that if the standby were used at all it would only be for small amounts and for short periods - as Timar had told the Governor yesterday.

Leutwiler then raised the possibility of the BIS making available an amount of up to \$50 mn at its own risk. This would, of course, require Board approval. Leutwiler admitted that Schleiminger was not attracted to this idea. He then went on, however, to dilute the proposal by suggesting that some of the Central Banks could each, perhaps, guarantee up to, say, 5% or 7% of that amount. The

Governor responded that if bodies like the BIS and IMF, as well as Central Banks, were not prepared to take risks at the present time, the situation would ultimately be worse than it would otherwise have been. Leutwiler agreed (he had just been explaining the risks to his own government) but asked the Governor not to be too negative at the start. If the Hungarians were unable to mobilise their commercial bank loan (which depended on the BIS standby) it would be very hard for them. He would speak to Pöhl at the weekend, who had been positive about Hungary earlier; if he was still thus, Leutwiler thought that he should be formally approached at the first. The Governor warned that whatever was done would require a contribution from the Japanese. He had seen a suggestion that the Japanese would only come in if the Americans did: the Governor considered that that would not do.

---

As regards the next Basle, Leutwiler was not sure who would be coming from the USA, although he thought it would probably be Wallich. The Sunday evening dinner, he suggested, should be confined to de Larosière, Duisenberg and Pöhl, in addition to the Governor and himself. The Governor suggested that de la Genière should be included despite any apparent linguistic problems, and Leutwiler agreed. Finally, despite the Governor's asking, Leutwiler did not say whether de Larosière would be at the informal meeting of the Board on 12 July.

Governor's Office HO-P  
30 June 1982

S P Collins (4122)

*SPC*

*Int*  
25 APR 1982