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PRIME MINISTER

LLOYDS BANK INTERNATIONAL AND ARGENTINA

Our respective offices have been in touch about this matter over the past few days, following the adverse weekend press comment about Lloyds' participation in a financing package for Argentina in parallel with IMF support. Vivian Bendall's written PQ to you on Monday means that we now need to define the Government's position.

- .....
2. I attach a note by the Bank of England which sets out the present state of play on the IMF financing package for Argentina, and discusses the possible implications of the withdrawal of British banking involvement in it.
  
  3. There can be no doubt that Lloyds' own stake in South America is such that it is very much in their own interests to go ahead. Equally, it is important, in terms of the UK's wider economic interests in working through the IMF to preserve the stability of the international financial system, that the package should be put together. As the Bank of England note points out, if the British banks (who would take a share of around 10 per cent) were to drop out, this could put the success of the whole operation at risk, which could in turn prejudice the other delicately poised rescue operations for Mexico and Brazil. The process of normalising financial relations with Argentina, which was launched by our decision to lift sanctions in September, would be stopped in its tracks, and the outlook for our financial and commercial interests in Argentina would be bleak. The aim of the operation is of course to ensure that Argentina does not dishonour its financial commitments, many of which are owed to UK residents, including some guaranteed by ECGD.





4. That said, however, I fully recognise the very sensitive political and domestic issues which arise here. Our own difficulties are compounded by unfortunate statements to the press by Sir Jeremy Morse that Lloyds would be prepared to pull out, if that were our wish. In spite of this, I think we would be ill-advised to depart from the traditional position that lending decisions must be for the banks' own commercial judgement, with which it is not our policy to interfere. If we were to imply that we had any wish, let alone right, to influence these commercial decisions, we would be embarking on a very slippery slope, with an immediate intensification of the pressure on us from the Americans and others to "deliver" more UK bank lending in other parts of South American and Yugoslavia.

5. Had it not been for the PQ, I would have seen no need to intervene, unless Lloyds had pressed us for a Government view. As it is, we have now to answer ~~to~~ the Bendall PQ, and to take into account the concern which Lloyds have forcibly expressed to the Bank of England that they may have to withdraw from the loan operation unless the Government make it clear that the participation of British banks is not in conflict with Government policy. For the reasons set out above I believe this would be unfortunate, and I recommend that you should reply as in the attached draft.

6. I am copying this minute to the Foreign and Commonwealth Secretary and the Governor of the Bank of England.

*G.H.*

[ *Approved by the  
Chancellor* ]

G.H.

16 December 1982



PARTICIPATION BY BRITISH BANKS IN LOANS TO ARGENTINA

1 The decision to remove financial restrictions between the UK and Argentina was influenced by awareness (i) that the UK had more to lose than Argentina by their continuation; and (ii) that their continuation stood in the way of any attempt to resolve Argentina's debt crisis, which, together with that being experienced by other Latin American countries, posed a serious threat to the international financial system. The purpose of the removal of the restrictions was to return banking and financial relationships so far as possible to the status quo ante the commencement of hostilities.

2 Over the past few months the IMF has been working to put together a rescue package for Argentina, in parallel with those they are arranging for Mexico and Brazil. The main elements of all these packages are a strongly conditional IMF programme to accompany access to drawings on Fund facilities, a bridging loan to cope with immediate liquidity difficulties and a commitment by banks to the provision of additional medium-term finance. In the case of Argentina, the programme has been agreed with the Fund, which will provide a 15-month standby facility for SDR 1.5 bn, while a group of banks are in the final stages of finalising arrangements and commitments for a \$1.1 bn bridging loan and a \$1.5 bn medium-term loan.

3 In view of the normalisation of banking and financial relationships which has been in process since the reciprocal lifting of financial sanctions, it was understandable that Lloyds Bank International, one of the major foreign banks operating in Argentina, should have been asked to join the group of international banks arranging these loans. HMT and the Prime Minister's office were informed of this, and of the possibility that other British banks might consider it commercially appropriate to participate in the loans, in a letter dated 19 November sent by Loehnis to Scholar.



4 If Lloyds were now to withdraw from their co-ordinating role, and they and other British banks were to withhold support from the loans at this late stage, there is a very real possibility that the success of the whole Argentinian package might be put at risk. This would have a major effect on confidence generally and would at very least complicate the task of bringing the Mexican and Brazilian operations to a successful conclusion. The co-operation of the international banks in these operations depends crucially on their being convinced that the burden is being shared reasonably fairly. Considerable pressure has been exerted by foreign banks on the Argentinians to make good arrears owing to British banks as a condition of their willingness to contemplate the present banking operations. They would find the non-participation of British banks now very hard to understand; and it is unlikely that they would be willing to step up their own commitments in order to fill in the gap left by the British withdrawal (British banks' participation, based on their proportionate exposure, would amount to some 10%-11% of the whole).

5 There must also be a very strong possibility that a British withdrawal would lead to reprisals being taken against them in Argentina, which could extend to British firms operating in Argentina more generally.

6 Lloyds have made it clear, in their response to the public reaction to the handling of the matter in last week's Mail on Sunday that they would not wish to proceed if this was contrary to HMG's wishes. Other British banks would no doubt take their cue from a decision by Lloyds to withdraw.

7 Public concern that British banks should not lend money to Argentina that might be used to purchase military supplies that could be used against the Falkland Islands in the future is wholly understandable. It should be said, however, that arms purchases are normally financed under bilateral credit arrangements between the purchasing and selling countries with benefit of relevant export credit guarantees. There is no reason to believe that this was not the case with recent Argentinian arms purchases, or that the normal pattern will be departed from in the future.



MR VIVIAN BENDALL (C) ILFORD NORTH: To ask the Prime Minister if she will introduce legislation to prevent any British bank from lending money to Argentina, if it appears to HMG that the money may be used for, or diverted to arms purchases and if she will make a statement.

DRAFT ANSWER

The Government has no plans to reintroduce financial restrictions between the UK and Argentina. The Government's decision to remove the restrictions in September was influenced by awareness that their continuation stood in the way of any attempt to resolve Argentina's debt crisis, which, together with similar difficulties being experienced by other countries, posed a serious threat to the international financial system.

Since that time the IMF has been negotiating with Argentina a strongly conditional economic programme to accompany access to drawings on the Fund's facilities. In parallel and with the full knowledge and support of the Managing Director of the IMF negotiations have been taking place on two loans to be provided by a group of international banks, including British banks. Their purpose is to help Argentina to continue paying its debts, many of which are owed to residents of this country. It is HMG's policy to support the IMF in its endeavours to maintain the stability of the international financial system.