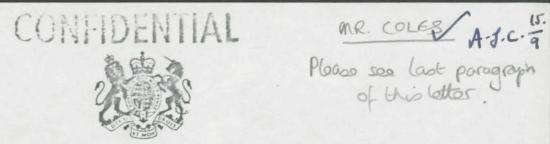
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10 DOWNING STREET

From the Private Secretary

15 September 1983

Dear John.

Brazil

The Prime Minister held a meeting on Brazil yesterday evening. The Chancellor of the Exchequer, the Governor of the Bank of England, Mr. Middleton, Mr. Unwin and Mr. Loehnis were present.

The Governor said that at the recent BIS meeting it had been agreed that the repayment date for the overdue BIS facility should be extended to 30 November. This would give time for the IMF to come to a conclusion about whether the Brazilians were performing satisfactorily under the terms of their adjustment programme - in particular on whether their de-indexation policy was being implemented satisfactorily. There might be problems in the Brazilian Congress about ratifying the law on wage de-indexation, and it might prove necessary for the President to ratify the law by decree.

In discussion it was noted that Brazil's financing requirement in 1983/84 was some \$11 billion over and above the funds they would be receiving from IMF sources. Of this there were indications that the commercial banks would provide \$6 billion or perhaps as much as \$7 billion. The agreement in the Paris Club to reschedule Brazil's official debts might produce a further \$1.9-2 billion; \$0.3 billion was expected to come from the IBRD, and \$1.5 billion from the US Exim bank, if the Administration was successful in securing Congressional approval this week. This left a financing gap of between \$500 million and \$1 billion, and it was likely that there would be pressure for Brazil's creditors to bridge this gap through additional export credits. British participation in the Paris Club rescheduling was likely to have a PSBR cost of around £200 million. It seemed likely that there would be general agreement in principle to such rescheduling, and it would be very difficult for the United Kingdom to stand out against the other countries. To go beyond agreement to the rescheduling, and to agree new export credit cover for Brazil might well take the pressure off the commercial banks. On the other hand, if the banks came to believe there was a lack of commitment by governments to find a solution to Brazil's financing problems their contribution might fall short of \$6 billion.

/ The Prime Minister

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CUNTIVENIIAL - 2 -The Prime Minister said that our involvement in a Paris Club agreement should be a sufficient earnest of the Government's wish to see a satisfactory outcome to Brazil's financing problems. We could not, however, contemplate the additional costs, contingent or otherwise, which would be involved in offering new export credit money to Brazil. If, at some later stage, Brazil's problems reached a critical stage it might be necessary to reconsider this decision. In view of the comparatively forthcoming position, particularly in relation to that of the United States, that Britain was taking on a range of international financial issues - for example the IMF quota increase and enlarged access to the Fund this decision ought not to be difficult to defend. Finally, the Prime Minister noted the Chancellor's and the Governor's view that it would be desirable during her forthcoming discussions with President Reagan, to urge him to do all he could to secure passage through the Congress of the IMF bill. I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office), John Bartlett (Governor's Office) and Richard Hatfield (Cabinet Office). Your sincrety, Michael Scholar John Kerr, Esq., H.M. Treasury. CONFIDENTIAL