

GRS 820
CONFIDENTIAL
DESKBY 110900Z
FM UKDEL IMF/IBRD WASHINGTON 082345Z
TO IMMEDIATE F C O
TELNO 246 OF 8 JULY 1983.

CONFIDENTIAL

Dr. Helsen
[Signature]

A.S.C. 11/7

YOUR TELNO 211

IMF: ARGENTINA -- FINANCIAL RESTRICTIONS

1. OUR ASSESSMENT OF YOUR POINTS (A)-(G) IS AS FOLLOWS.
(A) DALE (DEPUTY MANAGING DIRECTOR) HAS CLEARED THE PAPER. HE EXPECTS THAT IT WILL BE OUT LATER TODAY AND CERTAINLY IN DIRECTORS' OFFICES BY MONDAY. THE PAPER IS MAINLY ABOUT THE EXCHANGE SYSTEM, BUT THERE IS SOME FAIRLY BRIEF DISCUSSION OF ECONOMIC PERFORMANCE WITH RESPECT TO OTHER CRITERIA. DISCRIMINATORY RESTRICTIONS ARE MENTIONED TOWARDS THE END, BUT THE PAPER DEALS MAINLY WITH PROGRESS TOWARDS ELIMINATING NON-DISCRIMINATORY RESTRICTIONS, WHICH IS LAGGING A LITTLE BEHIND SCHEDULE. DALE SAYS THAT THE ARGENTINES ARE ASKING FOR A WAIVER ON ARREARS (UNDERLINE LAST TWO WORDS), SPECIFICALLY TIED TO THE DELAY IN RELEASING THE COMMERCIAL BANKS' MEDIUM-TERM LOAN. HE CONFIRMS THAT NO DECISION IS PROPOSED AS YET.
(B) WE THINK IT LIKELY THAT THE ARGENTINES WILL FORCE A BOARD DISCUSSION OF THE DISCRIMINATORY RESTRICTIONS, PROBABLY BY REQUESTING A WAIVER. OUR GUESS IS THAT THEY WILL SAY THAT THEY HAVE MADE BEST EFFORTS TO REMOVE THE DISCRIMINATORY RESTRICTIONS, THAT A MAJOR RELAXATION HAS BEEN ACHIEVED FOR BANKS AT THEIR CONSIDERABLE POLITICAL COST, THAT THE REMAINING RESTRICTIONS ARE ECONOMICALLY UNIMPORTANT ALTHOUGH POLITICALLY SIGNIFICANT TO THEM, AND THAT DENIAL OF THE WAIVER WOULD RUIN THE ADJUSTMENT EFFORT IN ARGENTINA AND ARGENTINA'S RELATIONS WITH THE FUND. THEY MAY ALSO INVOKE THE OBSCURITY OF PRECISELY WHAT THEIR OBLIGATIONS ARE AFTER THE JANUARY BOARD DISCUSSION. THE DISCUSSION IS LIKELY TO BE IN THE LAST WEEK OF JULY OR THE FIRST OF AUGUST. IF THE PAPER IS DATED TODAY, AND THE FOUR-WEEK RULE FOR CONSIDERATION IS OBSERVED, THE DISCUSSION COULD BE AT THE END OF JULY BUT THE BOARD TIMETABLE IS VERY CONGESTED THEN. IT MAY SLIP INTO THE FIRST WEEK IN AUGUST. HOWEVER, THE ARGENTINES MAY SEEK TO REDUCE THE PERIOD FOR CONSIDERATION IN ORDER TO BE ABLE TO DRAW IMMEDIATELY AFTER THE END OF JULY. IN ANY EVENT WE SHOULD BE READY FOR AN EARLIER DISCUSSION THAN THE LAST WEEK OF JULY. YOU MAY THEREFORE THINK THAT EARLY LOBBYING IN CAPITALS WOULD BE WELL ADVISED, EVEN IF WE HAVE TO TAKE FOLLOW-UP ACTION LATER.
(C) THE ARGENTINES HAVE TODAY STARTED TO LOBBY HARD IN THE FUND. TEIJEIRO (ARGENTINE ALTERNATE DIRECTOR) IS TALKING TO THE GERMANS, AUSTRALIANS, FRENCH AND CANADIANS AND WILL PROBABLY BE TALKING TO OTHERS. DIRECTORS ARE LIKELY SIMPLY TO TAKE NOTE AND REPORT TO CAPITALS. WE HAVE NOT HEARD OF LOBBYING IN CAPITALS.
(D) WE HAVE DETECTED NO WEAKENING ON THE PART OF THE STAFF. THE MANAGING DIRECTOR IS CURRENTLY IN EUROPE. BANK OF ENGLAND OFFICIALS WILL NO DOUBT SEE HIM IN BASLE AND YOU MAY WISH THEM TO TAKE THE OPPORTUNITY TO CHECK HIS LATEST THINKING ON ARGENTINA.

CONFIDENTIAL

(E)

CONFIDENTIAL

(E) G10 ATTITUDES ARE STILL UNPREDICTABLE. EXECUTIVE DIRECTORS HERE ARE BEING VERY RESERVED. POLICY WILL BE MADE IN CAPITALS. ONLY TVEDT (NORDICS) HAS TOLD US THAT HE WOULD SUPPORT US IN THE BOARD. THOUGH THE US HAS EXPRESSED FIRM SUPPORT SO FAR, WE CANNOT ASSUME ITS CONTINUANCE. THEY WILL HAVE TO WEIGH THEIR TRADITIONAL STRONG SUPPORT FOR THE LAW AND PRACTICE OF THE FUND AND FOR THE UK, AGAINST THE POSSIBILITY OF AN ARGENTINE DEBT "DEFAULT" WITH POSSIBLE DOMINO EFFECTS, THE AVOIDANCE OF ECONOMIC DISRUPTION IN ARGENTINA DURING THE SENSITIVE RUN-UP TO THIS AUTUMN'S ELECTIONS AND, MORE GENERALLY, THEIR FEAR OF PUSHING THE ARGENTINES TOWARDS THE SOVIET CAMP. THE ATTITUDES OF COUNTRIES OUTSIDE THE G10 MAY WELL BE DETERMINED BY THEIR WIDER POLITICAL RELATIONSHIPS WITH THE UK. WE KNOW OF NO CONGRESSIONAL INTEREST SO FAR BECAUSE THE ISSUE HAS HARDLY SURFACED PUBLICLY HERE. WHEN IT DOES, THE PRESSURES ON CONGRESS ARE LIKELY TO BE THE SAME AS THOSE ON THE ADMINISTRATION.

(F) I CERTAINLY RECOMMEND A STRONG LOBBYING EFFORT IN G10 CAPITALS SINCE DIRECTORS WILL BE ACTING UNDER FIRM INSTRUCTIONS. WE WILL CONTINUE TO KEEP IN CLOSE TOUCH WITH DELEGATIONS HERE. OUR ASSESSMENT IS THAT WE CANNOT BE CERTAIN OF THE FAIRLY SOLID G10 SUPPORT WHICH WE WOULD NEED TO CARRY THE BOARD. OTHER CAPITALS FOR PARALLEL ACTION ARE CANBERRA, WELLINGTON, THE MAJOR SCANDINAVIAN CAPITALS, VIENNA, AND PERHAPS DELHI AND THE MAJOR CAPITALS IN THE ANGLOPHONE AFRICAN CONSTITUENCIES. WE WILL ADVISE LATER ON AN APPROACH IN RIYADH AFTER I HAVE SPOKEN TO NIMATALLAH (SAUDI EXECUTIVE DIRECTOR) WHO HAS JUST RETURNED FROM LEAVE. BUT AS SEEN FROM HERE, THERE SEEMS NOTHING TO BE LOST BY WIDE LOBBYING. (YOU MIGHT WARN OTTAWA THAT JOYCE (CANADIAN EXECUTIVE DIRECTOR) TOLD ME THAT HE HAS INFORMED HIS TREASURY OF THE MATTER, BUT IS UNSURE WHETHER HIS FOREIGN AFFAIRS MINISTRY HAVE BEEN CONSULTED).

(G) I SUGGEST THAT WHEN YOU COME HERE NEXT WEEK, YOU SEEK TO ASCERTAIN THE DEPTH OF US SUPPORT IF THE GOING GETS ROUGH AND THE ARGENTINES THREATEN DEFAULT, AND US WILLINGNESS TO LOBBY ACTIVELY ON OUR BEHALF.

2. FCO PLEASE ADVANCE TO APPELYARD (ERD), LAVELLE (TREASURY) AND GILCHRIST (BANK OF ENGLAND).

WICKS

ADVANCED AS REQUESTED

MONETARY
ERD
FID
MR GIFFARD
MR VRE

2
CONFIDENTIAL