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SUBJECT
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10 DOWNING STREET

From the Private Secretary

11 July 1983

BRAZIL

The Prime Minister held a meeting this morning to discuss the Chancellor's minute of 8 July, and the Bank's paper of 7 July on the current Brazilian situation. The Chancellor of the Exchequer, the Deputy Governor, Mr. Littler and Sir Alan Walters were present.

The Prime Minister said that it was a weakness of the Bank's paper that it neither indicated the likely position of the other creditor countries, in particular the Germans, Swiss and Dutch, at today's BIS meeting, nor did it specify the length of the rollover it proposed of the BIS facility. Her inclination was to join the Germans, Swiss and Dutch if they were against any further rollover. But she suspected that the matter would not be clear-cut, and that we should therefore argue for a two-week, final, rollover.

Mr. Littler reported that in a discussion with some of his opposite numbers, together with the IMF Managing Director, in Paris on Friday, M. de Larosiere had taken a firm line, suggesting that the critical policy decisions in Brazil would be taken by 15 July when the President would be departing for medical treatment. If they were not taken, that would be end of the road, and there could be no question of watering down the Fund's conditions for future drawings. There had been general agreement at the Paris meeting that this was the right line to take. The Deputy Governor said that the Bank of England's information from the commercial banks suggested that the Brazilians were much further away from making the necessary policy changes than this account indicated. But the IMF were nearer the action, and we must back de Larosiere's judgement.

The Prime Minister said that it was her impression that the creditor countries had not handled the Brazilian situation well. No-one had warned Brazil what would happen if they went into default. It was necessary to work out urgently detailed contingency plans, which she wished to see as soon as possible. If there was a risk that our stance in the Basle

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discussions would cause the Brazilians to refuse permission for our aircraft to land in Brazil on route for the Falklands if the refuelling operation failed, we should lower our profile accordingly. We should be guided in the Basle discussions by the view of M. de Larosiere; if, on his advice, we were prepared to agree a further roll over of the BIS facility, we should make it clear that this was a final roll over, for a very limited term: the precise date of the final repayment to be agreed with M. de Larosiere.

I am sending a copy of this letter to Brian Fall (Foreign and Commonwealth Office) and John Bartlett (Bank of England).

M. C. SCHOLAR

John Kerr, Esq.,
HM Treasury.