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Treasury Chambers, Parliament Street, SW1P 3AG  
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PRIME MINISTER

BRAZIL: BIS LOAN

I discussed with the Governor this evening the developments in Basle described in the Deputy Governor's letter of 12 July to Michael Scholar.

2. It seems that the determination shown from the outset by the BIS has had some impact on the Brazilian authorities. But I am sure that it is right that there should be no question of any further extension beyond 15 July of the \$400 million loan if the Brazilians do not by then provide Larosiere with assurances satisfactory to him.

3. The Governor made it clear tonight that it had not been his suggestion that I should join in any appeal to Secretary Regan to provide United States funds to cover the failure of Brazil to meet repayments of BIS lending if assurances satisfactory to Larosiere were received from the Brazilians. While it would of course be convenient for the Bank - and the Treasury, which has underwritten the Bank - to be repaid, I am not prepared to attempt to bring pressure on Regan to provide funds now. I shall not be ringing him.

4. The Governor and I discussed at some length the curious and complicated arrangement proposed between the BIS, central banks, and Brazil. It is of course contingent on the receipt of assurances satisfactory to Larosiere, and I can well understand Leutwiler's desire to preserve the credibility of the BIS as an



agency confined to short-term bridging finance. But we must also be concerned for the credibility of creditor authorities as a whole, and must not leave the Brazilians under the impression that they have got off the hook. I explained to the Governor that what troubled me in this respect was that the arrangements provisionally agreed at Basle did not incorporate any time-limit; and that I could easily imagine further negotiations between Brazil and the IMF, even after a helpful initial statement from the Brazilian President, dragging on for a considerable period.

5. We know, from contacts with the German Finance Ministry today, that they - and, on reflection, the Bundesbank - share this concern, and had by this evening come to the conclusion that a time-limit was desirable. They were thinking in terms of early September. This may look rather generous, but was designed to take account of not only two or three weeks of further rapid negotiation between the IMF and Brazil but also clearance with due notice through the IMF Executive Board.

6. I discussed this with the Governor, and we agreed that a time-limit was essential, and that it would be right to set a deadline of 15 September - ie two months from the present expiry date, and a few days after the next Basle meeting (10 September). The Governor will now be reporting this to his counterparts - he will clearly get explicit support from the Bundesbank - and will make it plain that only with the addition of the time-limit is the contingent arrangement provisionally agreed at Basle acceptable to HMG.

7. I hope that these conclusions are satisfactory to you. I should perhaps add that the Governor's view is that the chances of the Brazilians providing satisfactory assurances to the IMF by the end of this week are less than evens. If appropriate assurances are not provided, paragraph 2 above of

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course applies.

8. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Governor, and Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be "N.L.", written in a cursive style.

N.L.

13 July 1983

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