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DESKBY 280900Z  
FM UKDEL IMF/IBRD WASHINGTON 272331Z  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 272 OF 27 JULY 1983

*N. Schuler*  

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*NR 28/7*

IMF: ARGENTINA - FINANCIAL RESTRICTIONS

1. TEIJEIRO (ARGENTINE ED) CAME TO SEE ME THIS AFTERNOON AT HIS REQUEST. HE SAID HE HAD NO SPECIAL MESSAGE FROM HIS AUTHORITIES BUT HE WAS WORRIED ABOUT DEVELOPMENTS AND WANTED TO EXCHANGE VIEWS. HE MENTIONED THAT HE KNEW OF CONTACTS BETWEEN HIS AUTHORITIES AND THE US (MOTLEY, STATE DEPARTMENT - SEE MY TELNO 266) AND HOPED SOMETHING WOULD DEVELOP.
  
2. HE WENT ON TO SAY THAT THE FINANCIAL SITUATION WAS DETERIOATING IN BUENOS AIRES. THE UNOFFICIAL EXCHANGE RATE HAD FALLEN SIGNIFICANTLY FROM 11 TO 14 PESOS PER DOLLAR. PRICES OF GOVERNMENT EXTERNAL BONDS WERE FALLING. THE PUBLIC SEEMED TO BE BECOMING AWARE THAT THERE WAS A PROBLEM WITH THE BANKS. IF IT BECAME KNOWN THAT THE BANKS' DELAY IN SIGNING THE LOAN AGREEMENT WAS CONNECTED WITH THE IMF, THERE WOULD BE A REAL DANGER THAT QUOTE EVERYTHING WOULD FALL APART UNQUOTE. SO FAR THE RESULTS UNDER THE PROGRAMME IN TERMS OF ECONOMIC ACTIVITY AND EVEN INFLATION HAD BEEN QUOTE GOOD, BUT IF THINGS BEGAN TO DETERIORATE, QUOTE IRRATIONAL PEOPLE UNQUOTE WOULD COME TO THE FORE IN ARGENTINA. THERE WERE PLENTY OF PEOPLE WHO WANTED TO GO THE ISOLATION ROUTE, ARGUING THAT THE ECONOMY WAS SELF-SUFFICIENT IN FOOD AND ENERGY AND COULD SELL TO THE RUSSIANS. SUCH AN ANTI-INTERNATIONALIST DEVELOPMENT COULD BE VERY BAD JUST BEFORE THE ELECTIONS. IF A NEW GOVERNMENT CAME TO POWER ON A TIDE OF ISOLATIONIST FEELING, IT WOULD BE VERY DIFFICULT TO RESUME RELATIONS WITH THE FUND. DEL SOLAR AND WEHBE HAD ATTEMPTED EVERYTHING POSSIBLE BUT THEIR POSITION WAS WEAKENING DAILY.
  
3. WHEN I ASKED WHY THE ECONOMIC AUTHORITIES COULD NOT USE THE LEVERAGE IMPLICIT IN THE RAPIDLY DETERIORATING ECONOMIC SITUATION TO PERSUADE THE MILITARY TO THINK AGAIN, TEIJEIRO SAID THERE WAS NOT SUFFICIENT TIME AND IN ANY CASE THE MILITARY WERE NOT UNIFIED. THERE WAS NO POLITICAL FOCUS IN THE COUNTRY AT THE MOMENT: THE ESSENTIAL THING WAS TO GET TO ELECTIONS WITHOUT AN UPSET. THERE WERE PROBABLY NOW ONLY A FEW DAYS BEFORE THE FUND'S INVOLVEMENT WITH THE DELAY BECAME PUBLIC KNOWLEDGE. THE PRESIDENT WAS WELL AWARE OF THE SITUATION BUT WAS TOO EXHAUSTED TO ACT.

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4. TEIJEIRO AGAIN MADE THE POINTS HE HAD MADE TO ME PREVIOUSLY, TO THE EFFECT THAT A SOLUTION WOULD BE EASIER TO ACHIEVE IF THE ISSUE COULD BE STAVED OFF UNTIL AFTER THE ELECTION. THE MILITARY WOULD BE IN A WEAK POSITION AT THAT STAGE AND IT COULD BE ARGUED TOO THAT THEY HAD THEMSELVES CHANGED THE LAW AND PREPARED THE WAY FOR ADMINISTRATIVE RELAXATION OF THE RESTRICTIONS WITHOUT GOING PUBLIC. I AGAIN EXPRESSED SCEPTICISM AND EMPHASISED TO HIM THAT MY AUTHORITIES HAD UNDERGONE (EG IN THE DEBATE ON THE IMA BILL) GREAT POLITICAL CRITICISM FOR SANCTIONING THE FUND'S AND BRITISH BANKING INVOLVEMENT WITH ARGENTINA. ARGENTINA MUST HOLD TO ITS COMMITMENTS.

5. WHEN I ASKED WHETHER HIS AUTHORITIES WOULD SEEK A WAIVER BEFORE THE RECESS, TEIJEIRO SAID HE WAS NOT SURE. REJECTION OF THE ARGENTINE POSITION IN A BOARD DISCUSSION WOULD PRECIPITATE A SEVERE CRISIS (THIS WAS THE FIRST TIME HE HAD ADMITTED TO ME THAT HE COULD FORESEE FAILURE OF A WAIVER REQUEST). BUT IF THERE WERE NO BOARD MEETING, IT WOULD FAIRLY SOON BECOME KNOWN THAT THE NEXT FUND DRAWING WAS OVERDUE AND WITH THE BANKS CONTINUING TO DELAY THEIR LOAN, THE SAME GENERAL CONSEQUENCES WOULD ENSURE IN TIME.

6. TEIJEIRO MENTIONED THAT IF THE PROBLEM COULD NOT BE SOLVED BEFORE THE RECESS, HIS AUTHORITIES' PROPOSAL TO ENABLE FOREIGN FIRMS TO TRANSFER DIVIDENDS ETC AT THE OFFICIAL EXCHANGE RATE AFTER 15 AUGUST WOULD BE WITHDRAWN. HE ALSO SAID IN RESPONSE TO MY QUESTION, THAT IT HAD NOT BEEN THE INTENTION TO EXTEND EQUAL TREATMENT TO BRITISH NON-BANKERS AFTER 15 AUGUST: HE THOUGHT THAT THE LEGAL AUTHORITY FOR THIS LAY WITH THE ORIGINAL STATUTE, LAW 22591, WHICH APPLIED EQUALLY TO BONEX OR CASH TRANSACTIONS.

8. FCO PLEASE ADVANCE TO PS/CHANCELLOR, PS/EST, LITTLER AND LAVELLE (HMT), GILCHRIST AND LOEHNIS (BANK OF ENGLAND) AND APPELYARD (ERD).

WICKS

[ADVANCED AS REQUESTED]

MONETARY  
ERD  
FID  
MR GIFFARD  
MR URE