



PM/83/88

PRIME MINISTERPrime Minister <sup>(2)</sup>

We have arranged a meeting for Wednesday morning with Alex, FS, and Governor, each with one supporter. Treasury are likely to oppose strongly.

AT 9/11

Brazil

1. You indicated in September that it might be necessary to reconsider our decision not to provide new export credits for Brazil if Brazil's problems reached a critical stage.

2. The latest JIC assessment on Latin American debt and the most recent Bank of England survey of the international financial scene are both sombre about prospects in Latin America. I think we both had this in mind during our talk with Dam at Chequers on Monday. The JIC assessment argues that there is a substantial risk that the current ad hoc rescue package technique might break down in the case of one or two debtor countries. This could involve providing additional official support to minimise the resulting impact on the international banking system. The Bank of England paper argues that the success of the Brazilian exercise is vital to sustaining confidence. It concludes that if this confidence is lost the outlook for next year will be bleak.

3. Meanwhile the Brazilian package itself is at a crucial stage. On 18 November the IMF Executive Board is due to consider the Brazilian programme, and the following week the Paris Club will discuss rescheduling Brazil's officially guaranteed debt. The Brazilian Government has made strenuous efforts to pass a law which will de-index wages. The latest proposal provides for less de-indexation than the IMF originally envisaged. But the political pressures on the Brazilian Government are intense and it believes that this is the best that can be achieved in the prevailing situation.

/4. The IMF





4. The IMF calculates that there is a financing gap of some \$2.5 billion. The IMF's Managing Director asked governments to indicate by 14 November whether they are willing to grant new credits or to participate in a managed package for Brazil. He is also seeking from the commercial banks by the same date firm commitments that they will be prepared to participate in the \$6.5 billion commercial loan operation for Brazil.

5. The Americans have taken the line that they are prepared to put up \$1.25 billion of Eximbank credits as part of a managed operation if other governments provide a similar amount in aggregate. The Japanese and Germans have not said definitely whether they will participate themselves but have not ruled out a contribution. Although we had an earlier indication that the French, like the Germans, would be prepared to make export credits available on an ad hoc basis in support of their own commercial contracts, the French have not revealed this to the IMF. Nor have other European countries. The UK's position of not being willing to provide new export credits is well known.

6. I fully understand the reasons why we have taken a firm line. I entirely agree that the Americans must be pressed to do more for the IMF. At the same time the Brazilians are now beginning to single out the United Kingdom as taking a particularly hard line on the provision of export credits. There have been suggestions in the press about a linkage with transit rights to the Falklands. Our Ambassador in Brasilia has taken corrective action but there is a risk of long-term damage to our bilateral trading and political relations with Brazil. There is also the question of the signal which is given by governments to the private banks in present circumstances, in view of the generally increased possibility of a breakdown described by the JIC and the Bank of England.

/7. I suggest





7. I suggest it would be useful to have a meeting soon to discuss Brazil, perhaps early next week. We would then be able to take a final decision on our policy in the light of the other replies to the Managing Director's request for commitments from creditor governments. If you agree, it might also be prudent to ask our Executive Director at the IMF in any discussions with M. de Larosiere to continue to emphasise our reluctance to participate in a managed package, but to indicate that we are still considering the matter.

8. I am copying this minute to Nigel Lawson and to Robin Leigh-Pemberton.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office  
8 November 1983

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