

ZZ DELHI

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GRS 460

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FM FCO 231715Z NOV 83

TO FLASH NEW DELHI

TELEGRAM NUMBER 875 OF 23 NOVEMBER

INFO FLASH UKDEL IMF/IBRD WASHINGTON

FROM CHANCELLOR FOR PRIME MINISTER AND FOREIGN

1. WE LEARNED LATE YESTERDAY MORNING (22 NOVEMBER) THAT THERE WAS A MEETING TAKING PLACE IN NEW YORK OF THE ADVISORY COMMITTEE OF THE COMMERCIAL BANKS, TO DECIDE WHETHER TO RECOMMEND THE NECESSARY UNANIMOUS AGREEMENT TO MAKE THE FIRST DISBURSEMENT (OF DOLLARS 500 MILLION) UNDER THE DOLLARS 1.5 BILLION MEDIUM-TERM LOAN AGREEMENT ON 30 NOVEMBER. A FINAL DECISION IS LIKELY TO BE TAKEN TODAY. (THE AWKWARD TIMING IS APPARENTLY DETERMINED BY AMERICAN THANKSGIVING AND THE URGENT DESIRE OF US BANKS TO AVOID 'NON-PERFORMING' LOANS TO ARGENTINA BEFORE CLOSING THEIR BOOKS ON 30 NOVEMBER. OF THE DOLLARS 500 MILLION, DOLLARS 350 MILLION WOULD BE RETAINED BY THE BANKS TO EXTINGUISH PART OF A PREVIOUS BRIDGING LOAN, THE REMAINDER GOING INTO AN ESCROW ACCOUNT TO SETTLE OTHER ARREARS).

2. IT APPEARS THAT U.S. AND OTHER REPRESENTATIVES ARE SEEKING TO PERSUADE THE COMMITTEE THAT THE LOAN CONDITIONS HAVE BEEN MET. THE ONLY CONDITION IN WHICH WE MIGHT BE CONSIDERED TO HAVE SOME LOCUS IS THAT ARGENTINA SHOULD REMAIN IN GOOD STANDING WITH THE IMF, DESPITE RECENT FAILURE TO MEET ALL THE PERFORMANCE CRITERIA UNDER THE FUND PROGRAMME. THE FUND MANAGING DIRECTOR CONVEYED A MESSAGE TO THE COMMERCIAL BANKS AROUND EQD-OCTOBER, TO THE EFFECT THAT THE IMF PROGRAMME REMAINS IN BEING, ALTHOUGH FURTHER DRAWINGS ARE NOT BEING MADE AND WILL NOT BE MADE UNTIL, WHEN THE NEW ARGENTINE GOVERNMENT HAS TAKEN STOCK, A SATISFACTORY NEW PROGRAMME IS AGREED.

3. IT REMAINS POSSIBLE THAT THE ADVISORY COMMITTEE WILL NOT REACH A POSITIVE DECISION, OR THAT SOME BANKS WILL IGNORE ITS ADVICE. THE DISBURSEMENT COULD THEREFORE STILL BE POSTPONED, PARTICULARLY SINCE UNANIMITY IS REQUIRED.

4. I HAVE INSTRUCTED WICKS IN WASHINGTON TO RAISE THIS MATTER WITH THE MANAGING DIRECTOR DURING THE DAY, TO ASCERTAIN WHETHER HE IS FULLY SATISFIED WITH THE LOAN GOING AHEAD, AND TO ASK THAT HE SHOULD MAKE A STATEMENT IN THE IMF BOARD TODAY. IF THE BOARD WITHDRAWS SUPPORT, THE BANKS WILL PROBABLY NOT GO AHEAD. BUT IF THE FUND CONFIRMS SUPPORT, AND THE BANKS GO AHEAD, THEY WILL BE ABLE TO SAY THAT THIS WAS A PURELY COMMERCIAL DECISION UNDER AN EXISTING CONTRACTUAL ARRANGEMENT WHOSE CONDITIONS HAVE BEEN MET.

5. I HAVE HOWEVER, MADE IT CLEAR TO SIR JEREMY MORSE, AS CHAIRMAN OF THE LEADING BRITISH BANK IN THIS OPERATION, THAT IF IT GOES AHEAD I SHALL HAVE TO STATE PUBLICLY THAT THE DECISION IS PREMATURE AND REGRETTABLE. (THE NEED FOR ME TO DO SO MAY ARISE TOMORROW AT 2.30 WHEN SKINNER HAS A QUESTION DOWN.) I HAVE DISCUSSED THIS WITH THE GOVERNOR. HE WOULD HAVE PREFERRED NO ACTION IN WASHINGTON, BUT IS CONTENT WITH THE LINE TAKEN WITH MORSE.

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