



RECORD OF A DISCUSSION BETWEEN THE CHANCELLOR AND THE GOVERNOR
ON COMMERCIAL BANK LENDING TO ARGENTINA: 12.15PM, 23 NOVEMBER
1983 AT NO 11

Present:

Chancellor
Mr Middleton
Mr Littler
Mr Mountfield

Governor
Deputy Governor
Mr Loehnis

The Chancellor said that he was grateful to the Governor for agreeing at short notice to discuss how the authorities should react to reports, which had first reached the Treasury shortly after noon on 22 November, that the advisory committee on the \$1.5 billion commercial bank loan to Argentina was meeting in New York on 22 and 23 November, and might recommend that the first \$500 million drawing should be permitted before 30 November.

2. Mr McMahon said that Sir J Morse had this morning reported that no decision had been taken in New York on 22 November, but that the resumed meeting on 23 November could agree on the issue of a telex to the 300 participating banks designed to secure agreement, particularly from the 30 who had not so far come into line, to the release of the \$500 million tranche over the weekend of 26/27 November, or at least before 30 November. \$350 million would be used to repay an instalment due on an earlier bridging loan: the remainder would be used to settle arrears of interest outstanding. The impetus for action by 30 November came from the US banks, who were concerned to be able to classify loans outstanding on that date as performing rather than non-performing. No green light from the IMF was thought necessary: a red light from the IMF



would probably block action, but Larosiére's last signal had been positive. Unanimity among all 300 banks was required before a drawing could take place; but most and perhaps all banks were concerned at the risk of an Argentine moratorium - which might in practice improve their cash flow position - if no drawing were allowed. The LBI representative in New York, acting for all the participating UK banks was now under instructions to take a neutral line: a move to casting a veto would be very high profile indeed. Mr McMahon added that LBI believed that the drawing could proceed only on the basis that the Argentine were in good standing with the IMF as of 30 November; and that the advisory committee would assume that this was the case unless they received contrary advice from the IMF.

3. The Chancellor suggested that the proper course would be for the IMF Board to meet. The fact was that the IMF's own agreement and programme with the Argentine had collapsed: to pretend otherwise would be a fiction, and the line that a collapse was not a collapse until so certified by the Fund to the commercial banks would not be sustainable in the House of Commons. If the advisory committee went ahead with the issue of telexes tonight from New York, the inevitable publicity would ensure that the matter was raised in the House on 24 November, and he would be obliged to say that HMG thought the decision premature and regrettable. If the Fund were to decide that the Argentine was not at present a member in good standing, the proposed \$500 million commercial bank disbursement would presumably stop. If, on the other hand, the Fund were to decide that the disbursement was on balance desirable, given the change of government in Argentina, the participation of UK banks would seem less inexplicable to UK public opinion. The key point was that the Fund should not connive at a breach of its own rules: the maintenance of its authority was more important than the wishes of the US banks to be able to classify more of their loans as "performing" on 30 November.



4. The Governor and Mr McMahon thought it likely that news that the IMF's views were in doubt, and being reconsidered, would stop the loan. The British hand would be detected, and considerable publicity would ensue. It might be better for HMG to rest on, and if necessary act on, the warning given to Sir J Morse on 22 November that HMG would distance itself from any decision to allow new commercial bank lending to Argentina under present circumstances. And it was noted that a majority on the IMF Board would probably agree with the US view (and Larosiére's) that the \$500 million disbursement should go ahead: to raise the matter in Washington might therefore combine the disadvantages of stopping the loan and losing the argument.

5. The Chancellor was however concerned that a damaging precedent would be set if the fiction that Argentina was in good standing with the Fund were taken as permitting new commercial bank lending. Apart from the difficulties of public presentation in this country, there would be a clear breach of the important rule that the international banking community was ready and willing to assist debtor countries, but only when they had, in agreement with the Fund, accepted sensible programmes of adjustment. If the rule were to be breached, that should be with the prior knowledge of the Board: Larosiére should be asked to explain his reasoning to it. He would however ensure that the Governor's advice against action in Washington was recorded in the report to the Prime Minister in New Delhi which would be required immediately.

JOK

J O KERR
23 November 1983

Distribution:

Economic Secretary
Mr Middleton
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Mr Unwin
Mr Lavelle

Mr Mountfield
Mrs Case
Mr Ridley
Mr Hall

PS/Governor)
Mr McMahon) Bank of
Mr Loehnis) England

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