



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Prime Minister ①

Chancellor, supported by Foreign Secretary, recommends not standing in way of an agreement to a further tranche of the loan on conditions which are somewhat easier than those being sought earlier by the British banks.

Are you content?

PRIME MINISTER

Yes mt.

AT
16/3

ARGENTINA: COMMERCIAL BANK LENDING

You will recall that the British banks concerned with the medium-term loan to Argentina have been arguing that the release of the second \$500m tranche should be conditional on Argentina reinstating its IMF programme, and remaining in conformity with it.

2. In my minute of 7 February I reported that the British representative on the Working Committee handling the loan had become isolated in opposition to a proposal to allow a looser linkage, to a letter of intent by the Argentine Government rather than to the actual restatement of the fund programme. The line has nevertheless held, through a number of Working Committee meetings.

3. A new proposal has emerged at a Working Committee meeting this week. It is that release of the second \$500m tranche should be allowed, provided that:-

- a. Larosiere has forwarded a letter of intent to the IMF Board, and recommended that it be agreed;
- b. any measures in the Fund programme for Argentina which require the approval of the Argentine Congress have already obtained it;
- c. Argentina agrees to contribute \$110m from her accumulated foreign exchange reserves to supplement the second tranche, and clear interest arrears; and
- d. it is understood that

/the release



the release of the final \$500m would depend on the IMF Board approving the new programme.

4. The British banks are not yet committed to accepting this proposal; but they are likely to want to accept it. They have to respond on 19 March, and are meeting tomorrow to decide how to do so. Acceptance would undoubtedly represent a slight softening of their position, but the conditions on the loan would remain pretty tight. It is virtually unprecedented for the IMF Board to repudiate a letter of intent recommended by the Managing Director, and it seems clear that Larosiere does not intend either to accept a weak programme or to be fobbed off with a letter of intent unlikely to be implemented. Moreover, I attach importance to the requirement that the Argentine Government should dip into its own reserves, which have been building up quite sharply. And all or most of the \$500m, like the additional \$110m, would probably be used immediately to repay accumulated arrears.

5. I understand that the Governor's view is that the British banks need not be urged to stand out against the new proposal. I agree with him; and, subject to your views and those of the Foreign Secretary, propose to ask him to indicate to the banks that we would not wish to dissuade them from going along with a consensus in favour of the new proposal, if they judge that to be in their commercial interest. To avoid the risk of a slippery slope, I think that it would be right also to warn the banks that we assume that no further concessions would be made in response to any Argentine resistance to any of the four conditions.

6. Copies of this minute go to both the Foreign Secretary and the Governor; and also to Sir Robert Armstrong.

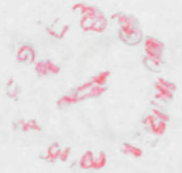
Mh.

N.L.

15 March 1984

Foreign Secretary agrees with Chancellor's line.

Indebtedness



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MAY 1904

COMPANIES

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