

cc Press Office



Prime Minister ^②
 This fills out the account I gave
 you on Friday night. I will
 have the Line to Take available
 for Questions.

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Treasury Chambers, Parliament Street, SW1P 3AG
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2 April 1984

Andrew Turnbull Esq
 10 Downing Street
 LONDON
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Dear Andrew,

ARGENTINA

The Chancellor, who is in Luxembourg today, asked me to let you have a fuller report on the rescue package for Argentina which the United States authorities managed - just - to put together late on Friday, 30 March. Our first news of their efforts to mobilise a package came during Friday, and as you know it was only very late on Friday that the extent of US Treasury involvement became clear, and that it began to look as if there was a chance of a positive result.

Details of the Package

The total package provides \$500 million to be applied to the payment of arrears owed by Argentina on commercial bank loans, so as to avert the immediate threat that many outstanding loans, particularly from US banks, would have had to be classified as "non-performing". The sum is made up of:

- \$100 million from Argentina itself;
- \$300 million from other Latin American governments (100 each from Mexico and Venezuela and 50 each from Brazil and Colombia). In respect of this sum, the US Treasury has offered to take out the full \$300 million on signature by Argentina of a Letter of Intent to the IMF. The US Treasury would itself be repaid out of subsequent IMF lending to Argentina (probably the first two tranches of such lending);
- \$100 million from the 11 "lead" commercial banks representing the syndicate of all commercial banks involved in loans to Argentina, pro rata among the participants. The sole British bank involved is Lloyds Bank International (LBI), and its share is reported as \$7.8 million. Repayment details are still not entirely clear. There appears to be a dual arrangement, either repayment from future commercial bank lending under the outstanding syndicated loan, which might be available when IMF lending has been finally agreed, or repayment on 30 June by Argentina out of funds held and earmarked with the United States Fed.

A further provision in the package is an undertaking by Argentina to reach a preliminary agreement with the IMF within 30 days.



Background and Comment

We knew that the US authorities were bringing very great pressure to bear on Argentina last week in the hope of securing some payments which would avert the threat of "non-performance" had arrears been left through the end-March deadline. It seems that, in the course of discussions with other Latin American governments, they were offered by the Mexican Finance Minister the idea of some joint operation, and they jumped at the possibility.

On Friday morning, the US authorities were working on a slightly larger package of \$610 million (with 150 from Argentina and 160 from commercial banks), and were still not certain of the 300 from other Latin American governments. By late on Friday, everything was in place except the commercial bank participation, on which the target had been reduced to 100 million. The US banks had been persuaded to join in; others were reluctant and insisting on "all or none". The US authorities evidently worked on each individually, to the point where LBI were the only bank holding out. In the last stages on Friday - very late by our clocks - there were calls here from McNamar and Sprinkel of the US Treasury, to try to persuade HM Treasury to encourage LBI to participate and thus avoid the last-minute collapse of the package. We refused, and the Deputy Governor of the Bank of England made it clear that LBI must make their own decision and could not look for comfort from statements by HMG.

Eventually, Sir Jeremy Morse (who happened to be in the United States and exposed to very strong direct pressure from Sprinkel and Volcker) felt that he could no longer stand out in isolation and agreed to participate. In the circumstances, his decision is an understandable one.

As regards the package as a whole, I have to say that the Treasury here and the Bank of England have some doubts. It is ingenious, it has elicited another promise from Argentina, for what that is worth, and it has mobilised what could be important pressure from other Latin American countries. On the other hand, there is a sense in which the debtor has called the tune, and the participation of other Latin American countries both raises the stakes on any future disagreement and threatens to bring in an element of debtor solidarity which could be dangerous. The US Treasury could face a good deal of domestic criticism for an operation which can be represented as a "bail out" both for Argentina and for commercial banks.

Line to Take

I suggest we should try to avoid comment, but if questions have to be answered the line should be:

- On participation by a British bank: the decision was a matter for the bank itself.
- On the package generally: HMG and the Bank of England played no part in this operation, which appears to have been mobilised largely by the United States Treasury and Fed.
- If pressed: the following additional points could be used:
 - understand that the whole \$500 million (including \$100 million from Argentina itself) will be applied directly to settlement of arrears due to commercial banks, including British banks.



- Essential need for Argentina is to reach agreement with the IMF. Understand the US authorities are hoping that this new loan, with participation by other Latin American governments, will bring pressure on Argentina to reach agreement with the IMF.

Copies of this letter go to Len Appleyard (FCO) and John Bartlett (Bank of England).

*Your ever,
David*

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Indebtedees

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