

Debt file



10 DOWNING STREET

Prime Minister<sup>(2)</sup>

You may wish to note that while the Commercial Banks have agreed to negotiate multi-year rescheduling for Mexico, this has not yet been completed. We should therefore avoid forms of words which imply that such rescheduling is already in place.

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AT

12/6



Prime Minister<sup>②</sup>  
To note

AT 7/6

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

7 June 1984

Andrew Turnbull Esq  
10 Downing Street  
LONDON  
SW1

Dear Andrew

#### INTERNATIONAL DEBT

I sent over to you on 17 May the latest in the regular series of reports on the international debt situation. You may like to have available, as background for the Summit, the attached note prepared by the Bank which describes more recent developments.

The note contains the Bank's latest information from the banks on Argentina. Negotiations are continuing. An IMF team, with very senior representation, is in Argentina and hope that a Letter of Intent will be submitted to Alfonsin for approval by the weekend. US Treasury representatives in London for the Summit assure us that they are putting maximum pressure on the Argentines to accept the Letter before 15 June when the US Treasury guarantee of the end-March loan by the four Latin American governments will expire. The US Treasury also strongly deny reports that they have been pressing the banks to make concessions. For their part, the banks are refusing to extend any further bridging facility unless a Letter of Intent is signed and forwarded to the IMF Board with the approval of the Managing Director. The Chancellor's view remains that, so far as the British banks are concerned, we should continue to maintain our "arms length" position. Separately, but as expected, the Argentine government has submitted a formal request to the Paris Club for the rescheduling of official and officially guaranteed debt, and we are considering how to respond to this.

The note also describes the 19 May statement from the Presidents of Argentina, Brazil, Mexico and Colombia. This, and the following up letter to the Prime Minister reported in yesterday's press, but which we have not yet seen, are clearly an attempt to put pressure on heads of Government attending the Summit. The statement needs to be taken seriously but is not in itself a cause for increased alarm about Latin American attitudes. Even the Governments directly involved as signatories have different perceptions of the way forward. In the Chancellor's view we should seek to build on these differences, and hence reduce the risk of a debt "block" being formed - for example by encouraging ideas like multi-year rescheduling for those debtor countries (such as Mexico) that are committed to sound policies. He hopes that in this context we will be able to strike the right note in the Summit communique.

I am copying this letter to John Bartlett, Bank of England, Callum McCarthy, DTI and Len Appleyard, FCO.

Yours ever  
David

D L C PERETZ  
Principal Private Secretary

## INTERNATIONAL FINANCIAL SCENE: LATEST DEVELOPMENTS

On 19 May, the Presidents of Argentina, Brazil, Mexico and Colombia jointly warned that higher international interest rates and increased protectionism threaten the trend towards democracy in Latin America and the region's "economic security", and called on the international community to co-operate "without delay" in the formulation of concrete measures to change existing international trade/financial policies and help resolve the crisis. They also announced that a meeting of foreign and finance ministers of the four countries would be held as soon as possible, to which ministers from other Latin American countries would be invited, aimed at defining "the most appropriate initiatives and means of action capable of reaching solutions satisfactory to all interested countries". A firm date and venue have yet to be announced, though it looks as if these may be 17-19 June in Bogota.

Argentina

The Working Committee of banks and an Argentine delegation met in New York on 30-31 May. The Argentines have dropped their request for the release of the \$1 bn balance of the medium-term loan and instead presented other proposals to bring interest arrears owed to banks on public sector debt current to 2 April. On condition that a Letter of Intent is signed by 15 June and the MD undertakes (subject only to a critical mass of new money being committed for 1984) to forward it to the Fund's Executive Board recommending approval of the programme, the Committee has offered Argentina:

- (a) to recommend to all the banks concerned a 90-day rollover of the \$750 mn outstanding on the bridge loan to 15 September;
- (b) to agree a 90-day rollover of the \$100 mn contribution of the Working Committee to the end-March package, ie to 30 September, although the US Treasury has only renewed to 15 June its \$300 mn commitment to take out the four Latin American governments;
- (c) to advance a new bridge loan of \$125 mn until 30 September (guaranteed by earmarked deposits with the Fed) provided

Argentina commits a minimum of \$275 mn of new money plus the balance undisbursed from the end-March operation (perhaps \$100-125 mn). These resources would be used to pay interest arrears due up to 2 April or later (some \$450-500 mn). Over the weekend Argentina offered to commit new money of \$225 mn.

LBI has notified the Chairman of the Working Committee that it formally agrees to the Working Committee's offer.

#### Bolivia

On 30 May the government announced a temporary suspension of payments of interest and principal on external debt to commercial bank creditors. (In fact, the Bolivians have not been paying interest since March or principal for a year.) The Foreign Minister subsequently stated that there was no intention to repudiate, but rather a desire to negotiate on rescheduling with the commercial banks.

#### Brazil

Following the President's visit to Japan, the Japanese have agreed to grant \$100 mn of new medium/long-term export credit and announced that they will re-open short-term cover for Brazil.

#### Ecuador

Ecuador has approached the Paris Club to reschedule around \$250 mn of capital and interest payments falling due in 1984 and 1985. Meanwhile, capital and interest payments on this debt have been suspended.

#### Mexico

The Mexican government is considering a new rescheduling package covering a number of years, so as to avoid the problems created by the "repayment hump" (starting in 1986). We know that the plan commends itself to the Fed and that Chairman Volcker is giving it a push at the International Monetary Conference.

It seems that nearly all of the \$3-5 bn of private sector unguaranteed suppliers' credits have been repaid by various means, thus reducing the stock of debt at end-1983 to about \$92 bn.

Nigeria

The IMF team which visited Lagos in early May left without securing agreement on the step devaluation of the Naira or the reduction of petroleum subsidies which the IMF regard as essential parts of any deal. At the 24 May London meeting, ECGD, HMT and Trichet (for the Paris Club) discussed with the Nigerians the framework of a possible multilateral refinancing of insured arrears, but reiterated that such an arrangement remained conditional on agreement with the IMF.

Philippines

The election procedures have still not been completed and there has been no material progress towards putting in place the economic programme which is required by the IMF.

Poland

The Poles were due to have paid 20% of arrears under the 1981 official rescheduling by 31 May, as a precondition to the opening of negotiations on rescheduling later maturities (1982 onwards). ECGD, at least, had not received the 20% downpayment by 1 June; but it is possible that the payment had been only temporarily delayed by an error. Failure to pay by the Poles would almost certainly lead to a postponement of the Paris Club negotiations due to be held in July.

Yugoslavia

The failure of the Yugoslavs to lift the price freeze on 1 May to the extent required under the IMF standby arrangement breached a performance criterion and rendered Yugoslavia ineligible to make its first drawing. But agreement has now been reached and a request for a waiver and modification of performance criteria is to be considered by the IMF Board on 6 June. Official creditors signed the Agreed Minute rescheduling 1984 maturities in Paris on 22 May. The provisions of the Agreed Minute will not be implemented until creditor governments have been informed by the Fund that Yugoslavia is entitled to purchase under the standby.

Bank of England

5 June 1984

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