 1 CP 2. Prime Minister

To note

AT 22/6

OO.

C

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

22 June 1984

Andrew Turnbull Esq
No 10 Downing Street
LONDON SW1

Dear Andrew

ARGENTINA

The Prime Minister may like to have the following summary of latest developments on Argentina, particularly in view of the French role (see below) and the possibility that President Mitterand may refer to this at Fontainebleau.

The French Treasury telephoned us this afternoon with a confidential account of the visit made to Argentina earlier this week, at the request of de Larosiere, by M Camdessus, the Director General of the French Treasury and Chairman of the Paris Club. Camdessus had lengthy discussions with both Alfonsin and senior Argentine Ministers, and reports that in his view the Argentines are now willing to negotiate more seriously and accept a proper adjustment programme. He believes he persuaded Alfonsin to accept a number of specific new policy changes. These include positive real interest rates, devaluation of the peso, and further expenditure cuts, including a specific programme of reductions in military spending. These measures would be included in a new Letter of Intent which Grinspun will visit Washington to discuss on Monday. The Letter would apparently contain no explicit reference to salary reductions, but be drafted in terms that left open the possibility of a period of negative real growth in the immediate future. Alfonsin himself has already included in a speech to Argentine Parliament a reference, agreed with Camdessus, to the need for a return to a period of austerity.

Camdessus, who will be reporting the outcome of his visit directly to de Larosiere, is a good deal more optimistic than before and thinks there is a genuine possibility of agreement with the Fund. The French have so far taken a line very close to ours on the need for agreement with the Fund on a tough adjustment programme as a pre-condition of any further financial assistance, which adds some credence to Camdessus' assessment.

It accords also with our latest reports from the US Treasury. They told us yesterday that, following their decision last week not to renew their guarantee of the Latin American loan, and the announcement this week by the US Regulatory Authorities of tougher interpretation of the US Accounting rules for bank treatment of "non-performing loans", the Argentines are now beginning to adopt a more sensible and realistic approach. But given previous events, the Chancellor thinks that we must suspend judgement on all this until we see the terms of the proposed Argentine Letter.

There have been no further significant developments on the negotiations between the Argentines and the commercial banks. The latter are to meet again in New York next Monday, but as we understand it, they are still sticking firmly to the position that any further release of funds remains contingent on signature of a satisfactory Letter of Intent commended by the Fund's Managing Director.

It is worth mentioning briefly also that first reports from the current Latin American Debt conference at Cartagena seem encouraging. We have not yet seen a communique, but on present information it seems unlikely to contain any extreme resolutions or demands. There seems to be no disposition to set up a debtors club, but rather to concentrate attention on what they see as the positive aspects of the London Summit communique.

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

Yours ever

David

D L C Peretz