10 DOWNING STREET

From the Private Secretary

29 June 1984

ARGENTINA

The Prime Minister saw your letter to me of 28 June. She was disturbed to learn that, with the encouragement of the Fed, the banks' Working Committee was considering making available new funds without a satisfactory IMF agreement. She has commented that if the release of new funds is not made conditional upon agreement with the IMF the borrowers are controlling the lenders and will continue to do so. She agrees, therefore, that LBI should be pressed to resist vigorously and that if, in the last resort, they do decide to participate, they must be aware that the Government might make public its disapproval.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office) and John Barlett (Bank of England).

(ANDREW TURNBULL)

David Peretz, Esq.,
H.M. Treasury.

PRIME MINISTER

I have spoken to Andrew Turnbull and these are his comments:-

This comes as no surprise. It was too much to hope that the resolve of the US authorities to make new money, conditional on agreement with the IMF, would hold firm as the end quarter for the Banks approached. It is a pity that the fund is not defending its interests more vigorously. It seems likely, in the end, that LBI will join the package, as not to do so may lose them a position of influence on the Banks' Argentina Committee.

Agree:

(i) We continue to press LBI to resist. - Yes resist vigorously

(ii) If LBI do participate, we take the line suggested by the Chancellor.

The release of new funds must be tied to a satisfactory IMF agreement. Otherwise the borrowers are controlling the lenders & will continue to do so. MT.

SH.

Duty Clerk
28 June, 1984

CONFIDENTIAL

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

28 June 1984

Andrew Turnbull Esq
10 Downing Street

Dear Andrew

ARGENTINA

There have been developments this evening on the bank loans to Argentina which you will wish to draw to the Prime Minister's attention.

In brief, a new proposal has come forward from the banks' Working Committee, with the strong backing of the Fed. The main elements in this are:-

(i) Argentina releases some $350 million to pay off interest arrears due to the banks up to 2 April;

(ii) the 11 Working Committee banks (including LBI) agree to:-

(a) roll over existing $750 million and $100 million bridging loans to 15 and 30 September respectively;

(b) make available tomorrow a new loan of $125 million which would be repaid by the Argentines on 15 August if no Letter of Intent with the Fund had been agreed by then; or on 30 September if a Letter had been agreed;

(iii) the 4 Latin American governments would agree to roll over their end March loan of $300 million until 31 July.

It was claimed that the Managing Director of the Fund approved the proposals, on the basis that they would give a further incentive to the Argentines to reach agreement with the Fund. We understand, however, from Nigel Wicks, who has spoken to him this evening, that the Managing Director is maintaining a studiously neutral position. He has told the banks that he has had extensive discussions with the Argentines on an adjustment programme "in a frank and cordial atmosphere". The discussions were "positive in defining the issues", and further discussions will take place in due course. But, although he had "no hostility" to the proposals, it was "up to the banks themselves to decide what to do".

The proposals would not increase the banks' total exposure in Argentina, and would secure an immediate release of funds from the Argentines' reserves. But the Chancellor does not think they should be accepted. There is still no evidence of progress in the negotiations with the Fund on a new programme; nor is it clear that the Argentines need new funds. There is no reason why they should not dip further into their own reserves. To agree to this package and to abandon the previous linkage of new money to agreement on a Letter of Intent approved by the Managing Director would be a further erosion of the banks' and, we believe, the Fund's negotiating position with Argentina.

We have, therefore, through the Bank of England conveyed these views to LBI and made it clear that we do not think these proposals should be accepted and hope that they will decide not to participate in them.

LBI, who have been taking a very robust position in the Working Committee on the need to link provision of new money strictly to an agreed Letter of Intent, are now consulting the other banks. Although they have indicated that they might not find it possible to hold out in the last analysis if they are isolated, they have agreed to make a further effort to persuade some of the other banks to stick to their previous position. If they were unsuccessful, and the proposals did in the end go forward, we should certainly need, as before, to make it clear as necessary that our view remains that the release of new funds should be tied to agreement on a satisfactory Fund programme.

We will, of course, keep you in touch with any further developments.

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

Yours ever

David

D L C PERETZ