



10 DOWNING STREET

Prime Minister ②

As expected LBI cared in  
when isolated, but they are  
aware of our disapproval.

The fact that some of the  
loans will still be  
non-performing may be  
useful; it will help the  
markets come to terms  
gradually with what will  
be an increasing problem.

Attached is a telegram  
reporting more fully

Mr. de Larosière's position.

AT

29/6

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

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street  
SW1

29 June 1984

Dear Andrew

ARGENTINA

As I reported to you on the telephone, we heard this evening that LBI have now agreed to participate in the new Working Committee proposals summarised in my letter to you of yesterday evening.

Their decision follows intensive discussions between the banks and with the Fed during the day. We understand that the outcome of these was that, except for minor reservations by one or two of the other banks, all had agreed to accept the new proposals except LBI, who had up to then resisted the package in the light of the views the Bank, at our request, had expressed to them.

We were ourselves approached at senior official level by the US Treasury. They claimed that their own position was still neutral, but that they wanted to be sure that we were fully appraised of latest developments. They confirmed the details of the proposed arrangements to us, and explained that, even if the new payments were made today, US banks, under recently revised official guidance, would still be obliged to show losses in respect of loans to Argentina in their second quarter reports which will appear early next month. The effect of the new deal will be to reduce the extent of those losses.

We explained our reasons for disapproving of the deal and confirmed that we had conveyed these to LBI. We had made it clear that they would have to make their own commercial judgement, but that if they decided to accept the package, we should feel free if pressed to express criticism of it. Our view would be that it would have been better to follow the normal practice of linking such a package to negotiation of a satisfactory Fund programme.

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

Yours ever  
David

D L C PERETZ  
Principal Private Secretary

GR 650

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TO IMMEDIATE FCO

TELNO 132 OF 28 JUN

**IMF: ARGENTINA.**

1. IN A SEPARATE CONVERSATION TODAY AND IN A MEETING OF G5 EXECUTIVE DIRECTORS, THE MANAGING DIRECTOR GAVE THE FOLLOWING REPORT OF HIS DISCUSSIONS WITH GRINSPUN.

### SUMMARY

2. **NO PROGRESS ON SUBSTANCE.** GRINSPUN HAS NOW RETURNED TO BUENOS AIRES TO CONSIDER HOW TO MEET THE FUND'S POSITION. **FURTHER DISCUSSIONS ARE PLANNED FOR AROUND JULY 10.** THE MD HAS SOME IMPRESSION OF A GREATER SENSE OF REALISM IN THE ARGENTINE TEAM.

### DETAIL

3. THE MD SAID THAT HE HAD GIVEN GRINSPUN A LIST OF THE ISSUES ON WHICH THE FUND AND ARGENTINEAN POSITIONS DIFFERED. THE MAIN ELEMENTS IN THE LIST ARE AS FOLLOWS.

### BUDGET

4. THE MD HAD TACKLED THE MOST DIFFICULT AREA OF BUDGET POLICY BY ASKING GRINSPUN FOR HIS VIEW ON THE LARGEST BUDGET DEFICIT COMPATIBLE WITH A SIGNIFICANT REDUCTION IN INFLATION OVER THE YEAR. GRINSPUN VOLUNTEERED THAT AN INITIAL INFLATION TARGET MIGHT BE 300 PERCENT COMPARED TO THE EXISTING 550 PERCENT. THE ARGENTINE 'LETTER OF INTENT' WAS PREDICATED ON A BUDGET DEFICIT OF 8.8 PER CENT OF GNP THOUGH THE PRECISE MEASURES FOR ACHIEVING THIS HAD NOT BEEN DEFINED. THE MD THOUGHT THAT THE BUDGET DEFICIT OBJECTIVE SHOULD BE 7 1/2 PER CENT. HE HAD QUESTIONED THE AUTHORITIES' BUDGET STRATEGY WHICH AIMED AT REDUCING THE DEFICIT BY INCREASING REVENUES. MANY OF THE REVENUE INCREASES WOULD INCREASE PRICES. THIS WAS UNDESIRABLE IN VIEW OF THE FEEDBACK THROUGH THE WAGE INDEX SYSTEM ON WAGE LEVELS. **THE MD HAD SUGGESTED BUDGET DEFICIT CUTS WOULD BE BETTER ACHIEVED BY EXPENDITURE REDUCTIONS.** EXPENDITURE REDUCTIONS RAISED THE ISSUE OF WAGE INCREASES, SINCE WAGES WERE A LARGE PERCENTAGE OF PUBLIC EXPENDITURE.

### BALANCE OF PAYMENTS

5. HERE THE MD EMPHASISED THE NEED FOR AGREEMENT ON A **CURRENT ACCOUNT DEFICIT WHICH WAS FINANCEABLE.** HE ALSO WANTED INFORMATION ABOUT THE SOURCES OF EXTERNAL FINANCE. ACTION WAS NEEDED TOO ON EXCHANGE RESTRICTIONS AND ON THE EXCHANGE RATE.

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MONETARY POLICY

6. THE ARGENTINEANS WERE ARGUING THAT THE DEMAND FOR REAL MONEY BALANCES WOULD INCREASE AS INFLATION FELL AND THAT THIS WOULD MOP UP LIQUIDITY. FUND EXPERIENCE SUGGESTED SOME SCEPTICISM HERE, THOUGH THE MD EMPHASISED THIS DIFFERENCE OF VIEW WAS NOT GREAT. THERE NEEDED TO BE UNDERSTANDINGS OF A MORE ACTIVE INTEREST RATE POLICY.

DESIGN OF THE PROGRAM

7. THE ARGENTINEANS HAD ASKED THAT PERFORMANCE CRITERIA SHOULD BE EXPRESSED AS A PERCENTAGE OF GDP RATHER THAN AS ABSOLUTE NUMBERS. THE MD COULD NOT ACCEPT THIS.

8. GRINSPUN HAD UNDERTAKEN TO STUDY THESE ISSUES WITH HIS AUTHORITIES AND RETURN TO WASHINGTON ABOUT JULY 10.

TALKS WITH BANKERS

9. EARLIER THE MD HAD TOLD ME THAT HE HAD NOT TOLD THE BANKERS' ADVISORY COMMITTEE THAT HE 'APPROVED' THE EXTENSION OF THEIR LOAN. HE HAD RESISTED THEIR PRESSURE TO GIVE A VIEW. INSTEAD, HE HAD DECIDED TO RETAIN HIS CREDIBILITY BY TELLING THEM THE TRUTH. THIS WAS THAT HE HAD HAD EXTENSIVE DISCUSSIONS WITH THE ARGENTINEANS ON ALL ELEMENTS OF AN ADJUSTMENT PROGRAM; THE ATMOSPHERE HAD BEEN FRANK AND CORDIAL; THE DISCUSSIONS HAD BEEN POSITIVE IN THAT PROGRESS HAD BEEN MADE IN 'DEFINING THE ISSUES' (THE MD EMPHASISED THAT THIS CAREFUL DRAFTING HAD NOT REFERRED TO PROGRESS ON SUBSTANCE); FURTHER DISCUSSIONS WERE NECESSARY AND WERE PLANNED; HE WOULD NOT SPECULATE ON THE TIMETABLE; AND A LOT OF WORK NEEDED TO BE DONE AND POLICY DECISIONS TAKEN.

10. THE MD EMPHASISED TO ME HIS NEUTRALITY IN THE BANKERS' DISCUSSIONS WITH THE ARGENTINEANS. HE COULD LIVE WITH THEIR PROPOSAL BUT IT WAS THEIR DEAL.

11. SUMMING UP HIS DISCUSSIONS, THE MD SAID THESE DISCUSSIONS WITH GRINSPUN GAVE HIM THE IMPRESSION, BUT NO MORE, THAT THE ARGENTINE AUTHORITIES HAD A GREATER SENSE OF REALISM. BUT THIS COULD NOT YET BE COUNTED ON. HE CERTAINLY COULD NOT SAY THAT A 'LETTER OF INTENT' WOULD BE SIGNED BY AUGUST 15, THE DATE REFERRED TO IN THE PROPOSED UNDERSTANDING BETWEEN THE BANKERS AND ARGENTINA.

12. FCO PLEASE ADVANCE TO UNWIN AND MOUNTFIELD (TREASURY), TAIT (ERD) AND LOEHNIS AND GILCHRIST (BANK OF ENGLAND).

WICKS  
MONETARY  
FID

(ADVANCED AS REQUESTED)

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