

✓ MR LOEHNIS  
MR QUINN

Copies to The Governor  
The Deputy Governor  
Mr Cooke o/r  
Mr Balfour  
Mr Holland

MEETING WITH PRIME MINISTER: <sup>1. June.</sup> ~~31~~ MAY

Andrew Turnbull rang to make two points.

1 International debt

The Governor should be prepared to bring the Prime Minister up to date on developments since the last 'round up' note, which was sent to Turnbull by Peretz on 17 May. Turnbull mentioned three points:-

- (a) Bolivia
- (b) The noises about a debtors' cartel from the four Latin American countries
- (c) Argentina

Would Mr Loehnis arrange for briefing, please.

2 The Prime Minister has been recalling a discussion with Lord Richardson about the impact of the tax system on the behaviour of the banks in making provisions (I am looking for the paper on this). She has apparently noted a contrast with Lloyd's insurance, where, effectively, <sup>the</sup> general provision is tax-deductible.

*cf  
ALB  
meeting*  
The Prime Minister wonders whether the current tax system deters the banks from making proper provisions - ie, because only specific provisions are tax-deductible, the banks might be inhibited from writing down loans as much as prudent accounting would suggest.

Would Mr Quinn please prepare some background briefing. This will, I am afraid, need to be with GPS by midday tomorrow.

Governor's Office H0-P  
31 May 1984

*S* John Bartlett (4121)

THE GOVERNOR

Copies to: Mr Loehnis  
Mr George  
Mr Walker  
Mr Quinn

MEETING WITH THE PRIME MINISTER

You have had, or will be having, written or oral briefing on the details of the domestic monetary situation, international debt and provisions. But you might find helpful the following points.

1. There is no denying the fragility of the present situation. It has greatly deteriorated in the last few weeks - since the Sherpa preparations got under way. Thus, the relatively optimistic line that was current at the Interim Committee and the OECD Ministerial Meeting and is probably reflected in the briefs and draft Communique for the Summit is now out of date. ①

2. The things that have got worse include:

(a) Continental Illinois. The fact that the Fed and FDIC acted so strongly is a plus but the fact that they needed to do so, that it came up so quickly and unexpectedly is a minus. 1a Although there may now be some marginal improvement visible, the experience of Continental since the rescue is depressing. It means that everybody will become more cautious; rumours will abound (Manufacturers Hanover last week, who knows which bank next week?).

(b) Moves towards a debtors' cartel. These should not be exaggerated but have obviously been given impetus by the recent rise in US rates and the fear of more to come. 1b And there is the special fear that Argentina will bring us all down. However, the banks are standing firm for a Letter of Intent and we have just heard, through Morse, that they have Larosiere's strong backing for this.

*Colombia  
& Mexico reluctant.*

*Move to politicians + F.O. +  
away from finance.*

(c) The deterioration of the situation in the Gulf.

(d) The short run deterioration in the economic outlook in Europe, with the strikes both here and in Germany.

(e) The falls in the world's stock markets in recent days - partly a reflection of all the above factors but also a contributor to unease.

3. All this means that we may not to be able to afford the luxury of a vacuous outcome of the Summit (not perhaps the exact words to be used) as at Williamsburg and Versailles. On the other hand it is very hard to know what in terms of a Communique would be helpful.

*BUT debt initiative at Philadelphia*

4. The real need is some assurance for the markets that US interest rates will not be rising any further (and, better, that they might even fall). But of course this outcome is not directly in the gift of the Summiteers. What is in the Administration's gift is something new on the Budget which could have the desired effect on interest rates. Even here the outlook is, of course, bleak and the Administration have been lectured on this subject ad nauseum. The only possibility I can think of would be some acceleration and intensification of effort by the Administration on Congress to make a "down payment" more certain and legislated quicker.

5. It is understandable that the Prime Minister will not wish to hector Reagan and will certainly not want reports that the Summit was critical of him. But she might be able to point out the deterioration in the world climate which is generally believed to follow from US policies. This will be given particular point if interest rates have had to go up here as the Heads of State arrive. It may be that she will be able to hint, what perhaps his advisers at home may be beginning to hint, that the developments in the financial situation could actually harm his chances in November.

*Cwm*

31st May 1984

## MEMBERS OF DEPUTY GOVERNOR'S COMMITTEE - PERSONALLY

As you may be aware the Governor is, at his request, seeing the Prime Minister at 5.30 on Friday afternoon. The main purpose of the visit is to speak about the Summit.

Although it is clear that international financial worries will overshadow the Summit and although some people (eg Morse) say that "if nothing credible" comes out of the Summit it will be taken badly, it is very difficult to know what to advise the Prime Minister to say.

It seemed to me that it might be worthwhile spending a little time at our meeting tomorrow morning to see if we can pool any ideas on this for the Governor.

Cwm

30th May 1984

INDEX

1. International Debt:

- International Debt nfr by JB 1.6.84.
- Times Press Cutting 1.6.84.
- Management of the International Debt Problem, FCO Telex 1645 of 25.5.84.
- International Financial Scene, Peretz/Turnbull, 17.5.84.

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A. Bolivia:

- Suspension of Debt Service Payments, PCL memo, 31.5.84.

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B. Joint Declaration by Argentina, Brazil, Mexico and Colombia, ADL memo, 1.6.84. RAL memo & briefing, 31.5.84.

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RELEVANT FOSSIERS

C. Argentina:

- Working Committee Meeting in New York: 30 - 31 May, ABC memo, 1.6.84.
- Possible Softening of the US and IMF Position, CB nfr, 1.6.84.

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D. The FT Story on Banks' Exposure to Latin America:

- The Clearers' Exposure to Latin America, BQ memo, 1.6.84.
- De Zoete's Report on the Clearers' Latin American Exposure, HGOS memo, 31.5.84.
- Financial Times press cutting, 31.5.84.
- De Zoete & Bevan report, 30.5.84.

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2. Provisions:

- General Provisions and Taxation, memo by BQ, 1.6.84.
- Tax relief for general bad debt provisions, DJM memo, 1.6.84.
- Extract from nfr by JSB of 2.5.84.
- Provisions against international lending by UK banks, 21.5.84.

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3. Monetary Policy:

- Monetary Policy, EAJG memo, 1.6.84.
- 4.30 pm Report by DAHB of 1.6.84.

GE/MAK  
SHredded

4. The US Budget Deficit, HS memo, 1.6.84.

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