

PS

PS/MR HURD

PS/MR ONSLOW

PS/PUS

MR GIFFARD

MR WRIGHT

MR ADAMS

MR URE

MR GILLMORE

ED/S AM D (FCO DIST + A/D F/I)

ED/DEF D

ED/NEWS D

HD/UND

ED/PLANNING STAFF

MR ANTHONY WILLIAMS W60

RESIDENT CLERK

HD/ERD

(Copy passed to Emergency Staff)

PS NO 10 DOWNING ST

PS/S OF S FOR DEFENCE

PS/CHANCELLOR )

SIR K COUZENS )

MR LITTLER )

MR HAWTIN )

MR PERETZ )

MR ILETT )

MR MCINTYRE )

TREASURY

MISS DICKSON (EIP DIV) D/EN

DIO CABINET OFFICE

MR WADE-GERY CABINET OFFICE

MR FULLER SAPU/DIO " "

SIR M PALLISER CABINET OFFICE

SIR R ARMSTRONG " "

Mr LOEHNIS BANK OF ENGLAND

SECRET

DESKBY 301600Z

FM WASHINGTON 301459Z APR 82

TO IMMEDIATE F C O

TELEGRAM NO 1532 OF 30 APRIL

MY TELNO 1464: ARGENTINE DEBT

1. WHEN ECONOMIC MINISTER VISITED NEW YORK YESTERDAY, THE FEDERAL RESERVE BANK BROADLY CONFIRMED THE GENERAL PICTURE GIVEN BY US TREASURY IN MY TUR. FRBNY WERE UNAWARE OF THE WELLS FARGO CASE MENTIONED IN YOUR TELNO 851.

2. COMMERCIAL BANK CONTACTS INDICATED HOWEVER THAT THE SITUATION HAD BEEN CHANGING DURING THE WEEK. MAJOR US BANKS WERE SEEKING TO LIMIT USE OF ARGENTINE SHORT-TERM CREDIT LINES TO THE LEVELS ACTUALLY REACHED BEFORE THE CRISIS. SMALLER BANKS WITH A HIGH EXPOSURE IN LATIN AMERICA WERE PULLING OUT AS SOON AS CREDITS MATURED, AND BUILDING UP THEIR LIQUIDITY AGAINST THE POSSIBILITY OF DEPOSITS BEING SHIFTED AWAY FROM THEM. ONE OF THESE BANKS FELT THAT EVEN IF THERE WAS AN IMMEDIATE POLITICAL SETTLEMENT, THERE WAS NO WAY THAT ARGENTINA COULD AVOID GOING BROKE WITHIN 2 MONTHS OR SO, AND A NUMBER OF FIRMS DOING BUSINESS THERE MIGHT ALSO COLLAPSE. ONE OF THE LARGER BANKS DID NOT FEEL THIS WAS INEVITABLE

COLLAPSE. ONE OF THE LARGER BANKS DID NOT FEEL THIS WAS INEVITABLE IF THERE WERE A POLITICAL SETTLEMENT SOON, BUT AGREED THAT THE POSITION WAS DETERIORATING, AND CITED A MAJOR CANADIAN BANK HAVING REFUSED TO ROLL OVER A CREDIT TO ARGENTINA, AND FAILURE THIS WEEK BY THE PARIS BRANCH OF BANCO DE LA NACION TO REPAY MONEY MARKET LOAN FROM AN AMERICAN BANK, EVEN THOUGH THE AMERICAN BANK HAD OFFERED TO ACCEPT PAYMENT IN THE US IF THIS WOULD BE EASIER THAN PARIS.

3. SOME OTHER LATIN AMERICAN COUNTRIES WERE SAID TO BE ALSO SUFFERING BY ASSOCIATION. IN THE SHORT RUN, THIS TENDENCY WOULD BE SOMEWHAT INDISCRIMINATE, BUT IT WAS FELT THAT BRAZIL, WHICH HAD ALREADY TAKEN SOME MEASURES TO STRENGTHEN ITS ECONOMY, MIGHT NOT BE TOO SERIOUSLY AFFECTED, NOR WOULD MEXICO ALTHOUGH IT ALREADY HAD ITS OWN PROBLEMS. ON THE OTHER HAND, VENEZUELA HAD COME UNDER PRESSURE BECAUSE OF THE BELLICOSE LINE IT HAD TAKEN SO FAR IN THE CRISIS, AND ITS FINANCIAL ADVISERS WERE BELIEVED TO BE COUNSELLING A LOWER PROFILE. THE VENEZUELAN EXCHANGE RATE MIGHT WELL COME UNDER PRESSURE, AND ONE OF THE BRITISH BANKS WHICH HAD BEEN INVOLVED IN A SYNDICATED LOAN TO VENEZUELA HAD BACKED OUT AT THE SIGNATURE CEREMONY ITSELF. (THIS WAS CLEARLY A REFERENCE TO THE LOAN MENTIONED IN YOUR TELNO 77 TO CARACAS.) PERU WAS ALSO FELT TO BE SHAKY. A SYNDICATED LOAN, WHICH HAD BEEN HELD UP FOR FOUR MONTHS BY ADMINISTRATIVE DELAYS IN THE PERUVIAN ADMINISTRATION, COULD PROBABLY STILL BE KEPT INTACT, BUT ONLY JUST. CHILE MIGHT ALSO BE ADVERSELY AFFECTED BY FEARS THAT A CONFLICT MIGHT BREAK OUT OVER THE BEAGLE CHANNEL.

4. FCO PLEASE ADVANCE TO LITTLER (TREASURY) AND LOEHNIS (BANK).

HENDERSON.

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