

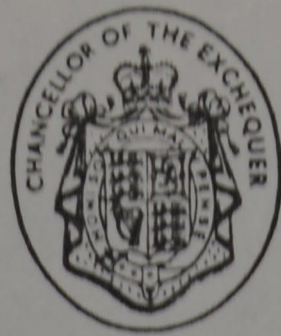
3.60

CONFIDENTIAL

The Deputy Governor
Mr Loehnis
Mr Cottler
Mr Holland
Mr Somerset
Mr Durbin
Mr Crawford

The Governor

I don't dissent that you said what you say you said. But the Chancellor did indeed talk of declaring



RECORD OF A DISCUSSION BETWEEN THE CHANCELLOR AND THE GOVERNOR

formal default, in a manner which suggests he might

ON BRAZIL: 7.15 P.M., 13th JULY,

NO.11 DOWNING STREET

R. L. P.
19/7

not have thought through the implications

Present: Chancellor of the Exchequer
Economic Secretary
Mr Middleton
Mr Littler

Governor
Deputy Governor
Mr Loehnis

see note at end.

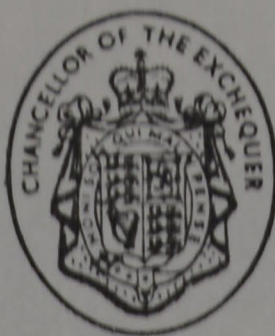
✓ R.L.P. 2/17
15/7

The Chancellor referred to the Deputy Governor's letter of 12 July to No.10 about the BIS loan to Brazil. It was perhaps best that advice to the Prime Minister on such matters should be channeled via him. He was puzzled by the proposition that Central Banks should take out the loan, and extend it without term: a fixed term would surely impose better discipline on Brazil. The proposal that he should press Secretary Regan for the US to step in was also a little odd.

2. The Governor explained that the latter proposal had certainly not been his, though Volcker had hinted that the Americans might in fact pay up. As for the former, the arrangement agreed ad referendum in Basle was entirely contingent on the Brazilians producing satisfactory assurances by 15 July, and was fully consistent with a policy of supporting Larosiere, who had welcomed it. The extended loan would be on call, with the Brazilians on probation, and the thought was that this would provide a more powerful lever on them than would a fixed term. In practice, it would take the Fund at least 3 weeks to check that the Brazilians would live up to their assurances, and perhaps a further 3 to 4 weeks to secure the formal agreement of the Executive Board to a revised package. It was noted that new commitments on financing would be required from the banks, in order to remedy a \$1.5 billion deficiency in the December package and to find a further \$2.5 billion which Brazil would require in the remainder of the current year. Putting together the financing package before mid-September would be very difficult.

3. It was however noted that the German Finance Ministry, and the Bundesbank on reflection, had concluded that a fixed term arrangement would be best. A deadline was thought necessary, if the impetus created by the Basle meeting was not to be dissipated. A realistic deadline might be 15 September, which would conveniently fall shortly after the next Basle meeting.

CONFIDENTIAL



4. The Chancellor concluded that he would minute to the Prime Minister reporting the decision that the Governor would inform his colleagues that the arrangement agreed at referendum at Basle was acceptable to HMG only if a deadline was imposed, and that 15 September seemed an appropriate date. He would stress to the Prime Minister that the arrangement was conditional on the Brazilians giving, by 15 July, assurances on performance which were satisfactory to Larosiere: in the absence of such assurances BIS, on behalf of the 17 participating Central Banks, would formally demand the repayment of the loan by Brazil. If and when repayment was not forthcoming, a formal default would be declared.

JOK

J O KERR

15 July 1983

*I am not sure
this was really said.
I think I sd. some-
thing to the effect "there
would then be the making
of a formal default, if that
seemed advisable. It
probably does not matter
now"*

1917

Distribution

Those Present
Sir T Burns
Mr Unwin
Mr Lavelle
Mr Peretz