

## 125. Intelligence Memorandum Prepared in the Central Intelligence Agency<sup>1</sup>

ALA 82-10059

Washington, April 1982

### Falkland Islands Dispute: Economic Impact (U)

#### *Summary*

The sanctions against Buenos Aires stemming from the Falkland crisis probably will have minimal impact on the Argentine economy in the next 30 to 60 days. The limitations on imports by the United Kingdom and the European Community from Argentina will require some time to take effect. Although there have been a few loan cancellations, Buenos Aires still is far from financial disaster. And, even though some serious technical problems are arising in covering obligations to British banks, there appears to be enough interest on the part of both debtors and creditors to arrange mechanisms to service Argentina's external debts.

Beyond the next few months, the duration of the conflict and the intensity of British measures will be important factors in determining how much disruption occurs to Argentina's economy and foreign financing. At the limit, Buenos Aires has reserves adequate to meet its debt obligations and basic import requirements over the next three to five months, so long as the British do not choose to blockade Argentine merchant shipping. Such a lengthening of the crisis would, however, add to existing Argentine economic problems and substantially raise the risk of a generalized debt rescheduling in 1982. Moreover, the political fallout of growing inflationary pressures and shortages would seriously constrain the Galtieri administration's options for stabilization policies.

In the event of a major armed conflict that seriously impaired Argentina's ability and willingness to service its external debt, many US and European banks that have lent heavily to Argentina would suffer serious profit declines or even net losses, but the international banking system as a whole could probably manage with little lasting damage. The real danger to the international financial system is a combination of adverse events. A simultaneous loss of payments from

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<sup>1</sup> Source: Central Intelligence Agency, Office of Support Services, Job 83B00225R: Production Case Files (1982), Box 1, ALA 82-10059 Falkland Islands Dispute: Economic Impact. Confidential; [*handling restriction not declassified*]. Information available as of April 15 was used in the preparation of the memorandum, which was prepared in the Office of African and Latin American Analysis and the Office of Global Issues in cooperation with the Department of the Treasury.

Argentina, Poland, and a few other large East European or LDC borrowers would be very difficult to manage without official intervention.

*[1 line not declassified]*

[Omitted here is the body of the memorandum.]