



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

14 August 1990

Dear Chairman Ryzhkov

Thank you for your letter of 3 August, which your Finance Minister, Mr Pavlov delivered to Mr Maude, Financial Secretary to the Treasury, during his visit to London on 7 August.

We shall of course consider your request for urgent financial assistance very carefully. With Mr Pavlov's agreement, we have already started to discuss it with officials at the International Monetary Fund. It is particularly useful that the Fund's latest mission left for Moscow on 13 August. I understand that one of their priorities will be to discuss your immediate payments position with your officials. This will give us a better understanding of the figures, and may avoid the need for us to send a separate mission of our own to Moscow. We shall also need time to discuss your request with some of our friends in other governments, to whom you have sent similar requests. I shall reply to your letter in more detail as soon as these consultations are complete.

Yours sincerely
Nagant Shalita

His Excellency Mr Nikolai Ivanovich Ryzhkov

CONFIDENTIAL

FILE

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to PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

14 August 1990

Dear Kate,

SOVIET REQUEST FOR BRITISH FINANCIAL ASSISTANCE

Thank you for your letter of 13 August covering a draft reply from the Prime Minister to Mr Ryzhkov's recent letter. The Prime Minister is content for the message to issue in her name. You will wish to adjust the third sentence of paragraph two appropriately. There will be no signed original.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office), Martin Stanley (Department of Trade and Industry) and Paul Tucker (Bank of England).

Yours sincerely,

CHARLES POWELL

Ms Kate Gaseltine
HM Treasury

CONFIDENTIAL

Handwritten mark

CCP/

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faced
B/8



Treasury Chambers, Parliament Street, SW1P 3AG

071-270 3000

*They want us
to loan them money
but want to pay
our money*

13 August 1990

Prime Minister

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Agree to

*Agree
reply
not*

*held proposed
reply*

Dear Charles

CDF B/8

SOVIET REQUEST FOR BRITISH FINANCIAL ASSISTANCE

With his letter of ¹³ August to Charles Powell, Steven Flanagan forwarded Mr Ryzhkov's letter to the Prime Minister which was delivered to the Financial Secretary by the Soviet Finance Minister earlier that day.

We have since checked with the IMF and with Bonn, Paris and Rome. It is clear that similar requests have been made to France and Italy; the FRG has of course already provided a very big DM5 billion loan with a Federal guarantee. We know that the United States has not been asked for help. We believe Japan has, though it seems unlikely that they would respond favourably. Surprisingly Korea is also believed to be considering help, possibly of a long term nature.

The present request seems rather different from the proposals for Western Financial support for economic reform, which led to the decisions of the Dublin and Houston summits to commission reports on the Soviet economy by the Commission and by the IMF, IBRD, OECD and EBRD. These two studies are now under way, but are aimed at medium term structural adjustment and the possible need for Western aid to support it.

By contrast the present request seems mainly prompted by Russian fears of an emerging short term liquidity crisis (though Ryzhkov's letter muddles the two up). As you know, payment delays to trade creditors, and arrears to banks, have been building up for some months, and are now beginning to affect guaranteed export credits as well. (The Head of ECGD, as the President of Barne Union of



export credit insurers, has just been to Moscow to press for clearance of arrears to official agencies.) At first, these delays seemed to be an accidental product of the decentralisation of foreign currency payments in the USSR. It is now beginning to look as though the problems could be more serious.

With Pavlov's permission, we discussed the Soviet request with Alan Whittome of the IMF, who has been placed in charge of the Fund's study of the Soviet economy. He was in London on Friday at the end of a tour of European capitals, following his and Camdessus' visit to Moscow. His staff are leaving for Moscow again today.

His preliminary view is that "there is the smell of a liquidity crisis here". But he says that the balance of payments projections, and the USSR's hard-currency reserves, are very unclear. He hopes some progress can be made next week in sorting out the numbers. Our officials believe it would be much better to use the Fund team, who have a flying start, to do this, than to accept Ryzhkov's offer of bilateral talks among experts.

Unless the Fund report that a crisis (meaning a suspension of payments) is likely within the next two or three weeks, we then plan to review the Fund's figures with other G7 Finance Ministries at a meeting already set up for early September in Paris, to which the French have invited the IMF (we shall urge them to include the Commission too). After that we shall be in a better position to make recommendations.

Meanwhile, it would be right to send an interim reply to Ryzhkov's letter. (The Embassy here have already been fishing for our reactions.) I attach a possible draft.

I am sending copies of this letter and enclosure to Stephen Wall (FCO), Martin Stanley (DIT) and Paul Tucker (Bank of England).

Yours sincerely
Kate Gaseltine

MISS K GASELTINE
Assistant Private Secretary

DRAFT LETTER TO
THE SOVIET PRIME MINISTER

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Ague *llls*
not

CCPC



Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

13 August 1990

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

~~Prime Minister~~

Agree to

send proposed
Reply

CD 13/0

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