

CONFIDENTIAL

ALQ 050/304/11		
RECEIVED IN REGISTRY		
TOP COPY		
DESK OFFICER REGISTRY		
INDEX	FILE	Action Taken

(37)

CONFIDENTIAL
 FM WASHINGTON 090125Z APR 82
 TO PRIORITY FOO
 TELEGRAM NUMBER 1210 OF 8 APRIL

FALKLAND ISLANDS: U S BANKS AND ARGENTINA

1. WE HAVE BEEN IN TOUCH WITH THE U S TREASURY AND THE FEDERAL RESERVE BOARD ABOUT HOW THE FALKLAND ISLAND CRISIS MAY BE AFFECTING THE LENDING OF U S BANKS TO ARGENTINA.
2. THE BASIC POSITION SEEMS TO BE THAT FOR PRUDENTIAL REASONS U S BANKS ARE CURRENTLY ENTERING INTO FEW IF ANY NEW LOAN COMMITMENTS TO ARGENTINA, BUT ARE HONOURING EXISTING ONES. TOTAL OPEN COMMITMENTS TO ARGENTINA ARE ESTIMATED TO AMOUNT TO ABOUT DOLLARS 1 1/2 BILLION (COMPARED WITH EXISTING LOANS OUTSTANDING OF DOLLARS 7.5 BILLION). THE SIGNS ARE THAT THE ARGENTINIANS MAY NOW BE DRAWING ON THESE COMMITMENTS IN THE FEAR THAT, IF SHOOTING SHOULD BREAK OUT, CREDIT WILL BE HARD TO GET OR, IF AVAILABLE, WOULD BE COSTLY. THE BRITISH BANKS ARE ALSO APPARENTLY DRAWING ON DOLLAR LINES OF CREDIT IN NEW YORK.
3. OUR CONTACTS SAY THAT U S BANKS ARE IN A QUOTE GENERALLY DEFENSIVE STANCE UNQUOTE ON ARGENTINA. THE BANKS' EXPOSURE IS LARGE AND, UNLIKE IRAN, ARGENTINA HAS VIRTUALLY NO ASSETS TO BE SEIZED IF THERE WERE A DEFAULT. IT IS NOT KNOWN WHETHER THE ARGENTINIANS HAVE RECENTLY TRIED TO ROLL OVER ANY OF THEIR EXISTING LOANS, BUT IT IS THOUGHT THAT U S BANKS MIGHT BE WILLING TO DO THIS PROVIDED THAT REPAYMENTS ON EXISTING LOANS WERE KEPT UP. APPARENTLY U S BANKS ARE WORRIED ABOUT SYNDICATED LOANS IN WHICH BRITISH BANKS ARE INVOLVED, FOR FEAR THAT NON-REPAYMENT TO THE BRITISH BANKS MIGHT CAUSE A DEFAULT WHICH COULD CONCEIVABLY BRING DOWN THE WHOLE STRUCTURE OF SYNDICATED LENDING TO ARGENTINA.
4. OUR CONTACTS QUOTE REPORTS THAT MOST OF THE LARGE BANKS IN NEW YORK ARE QUOTE EXTREMELY BEARISH UNQUOTE ABOUT STERLING AT THE MOMENT, MAINLY BECAUSE OF UNCERTAINTY ABOUT THE POSSIBILITY OF AN EARLY GENERAL ELECTION IN THE UK.
5. FOO PLEASE PASS TO LAVELLE (TREASURY) AND BALFOUR (BANK OF ENGLAND).

HENDERSON

[PASSED AS REQUESTED]

FCO
 S AM D
 CABINET OFFICE

ADDITIONAL DISTRIBUTION

FALKLAND ISLANDS

COPIES TO
 PS/CHANCELLOR
 SIR K COUZENS
 MR LITTLER
 MR HAWTIN
 MR FERETZ
 MR ILETT

TREASURY

MISS DICKSON, EIP DIV D/ENERGY
 MR FULLER SAPU CABINET OFFICE

CONFIDENTIAL