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10 DOWNING STREET

From the Private Secretary

29 March, 1985.

This is just to record that the Prime Minister has seen and noted your letter of 27 March about the decision of the IMF to withhold drawings under the Argentine Standby Agreement.

(Timothy Flesher)

Mrs. R. Lomax,
HM Treasury.

JLF



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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

27 March 1985

Tim Flesher Esq
10 Downing Street
LONDON
SW1

Pue Muntz

Dear Tim,

MF

To note

Dr

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ARGENTINA

You will have seen from yesterday's press reports that the IMF have decided to withhold drawings under the Argentine Standby Agreement signed last December.

As our last general report on the international financial scene made clear, we have always been doubtful about whether the Fund programme would stick given the massive acceleration in inflation. This is indeed what seems to have happened with at least one performance criterion missed at the end of December and attainment of the March criteria very unlikely.

By delaying drawings under the programme the Managing Director has put the Standby on "hold" whilst talks take place with the new Argentine economic team to re-establish the programme. De Larosiere believes that Sourrouille is committed to adjustment and the talks so far, though complex, have been constructive. He will want to see two months' good performance by Argentina before being willing to recommend a revised programme to the Executive Board.

It is not clear how this delay will affect the almost complete commercial bank package. De Larosiere is sending a supportive message to the banks asking them to maintain their commitment to the refinancing package. The extent of the banks willingness to do this may depend on Argentine treatment of interim arrears in the meantime. The latter's room for manoeuvre may be limited. The US Treasury were apparently unresponsive to feelers from President Alfonsin about a bridging loan.

So far as Paris Club debt is concerned we have discussed with other creditor governments, particularly the French, how to handle the bilateral negotiations (which should be completed by end June). The French, and the other creditors, are content to go ahead with bilateral negotiations, without finally implementing their agreements before the Fund programme is back on track. Whatever we do, we will want to reinforce the Fund's pressure on Argentina. The Argentine team will be in Paris on 11 and 12 April, and the Fund have asked us to stand by to go over there and negotiate our bilateral then. But they have received no formal reply from the Argentine side yet to their offer to host these talks in Paris.

I am copying this letter to Len Appleyard, Callum MacCarthy and John Bartlett.

*Jans even
Raeval*

MRS R LOMAX

Principal Private Secretary

27 MAR 1985

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