



From the Minister for Trade

NDPM  
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1415  
cc no

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14 May 1985

*Peter Rees*

**POLAND: RESCHEDULING V REFINANCING**

Thank you for your letter of 3 May.

I had hoped that, although you judge the monetary impact to be neutral and the PSBR advantage to be therefore cosmetic, you might nevertheless have agreed to a refinancing of Polish debt because of the benefits to ECGD of relieving its cashflow of the enormous burden of Polish claims. This would not only have been consistent with what we have recently done in respect of Brazilian and Yugoslav debts, but also with the two earlier refinancing loans which we signed up with the Poles in relation to 1981 indebtedness.

Your decision appears to have been strongly influenced by the fact that you consider a refinancing of Polish debt to be "disreputable" because of the difficulties which you believe Poland will face in honouring its obligations under the Paris Club settlement. Whilst I am reluctantly prepared to accept your decision on this as final, I am not happy with this interpretation.

As I see it, when a multilateral debt settlement has been reached through Paris Club or equivalent machinery, the chosen method for the bilateral implementation of that settlement is essentially a matter of mechanics and convenience. There is no question of impropriety or disreputability. Refinancing imposes no additional obligations on the debtor or extra exposure on ECGD by comparison with rescheduling. Indeed, because of the low cost of funding from the capital market there is often an interest rate advantage to be gained which can be shared between a debtor country and ECGD. I therefore see refinancing as the proper and normal technique which we should employ to implement international debt restructuring agreements except where there are compelling reasons to the contrary.

~~Trade: E.C.C.A~~ 1/80



We will proceed to negotiate with the Poles on the basis of a rescheduling, rather than refinancing, of their debt. I hope, though, that we will not too readily give up the advantages which refinancing has to offer in future cases.

I am copying this letter to the Prime Minister, to Members of EA and EX and to Sir Robert Armstrong.

*Ans*

PAUL CHANNON

*Paul*

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14 MAY 1985