

CONFIDENTIAL



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From the Private Secretary

27 October 1988

Dear Stephen,

ARGENTINA: WORLD BANK

The Prime Minister has seen the Foreign Secretary's minute of 25 October and the Chancellor's reply about our vote on the proposed World Bank loans to Argentina. She agrees with the Chancellor that, if Conable insists on bringing forward the loans in their present form, the United Kingdom should vote against them on principle, even if we have no support from others.

I am copying this letter to Jonathan Taylor (HM Treasury), Neil Thornton (Department of Trade and Industry) and Sir Robin Butler.

Yours sincerely,

(C. D. POWELL)

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

SW



cell

Treasury Chambers, Parliament Street, SW1P 3AG
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FOREIGN SECRETARY

ARGENTINA: WORLD BANK

Prime Minister
Agree with the
Chancellor's view?
CAF 26/11.
Yes
WITH CDP? / WILL REQUEST IF REQUIRED

Thank you for your minute of 25 October in which you suggest that the UK should oppose the World Bank's proposal that major policy loans should be disbursed to Argentina without an agreed IMF programme only if other G7 countries do likewise.

The decision by the IBRD's President, Mr Conable, to recommend to the World Bank Board two fast-disbursing loans to Argentina without an adequate macro-economic reform programme in place not only undermines an essential pillar of the debt strategy but also threatens the role of the International Monetary Fund.

Governments have in the past few difficult years insisted - rightly in my view - that debtor countries should only receive financial support of this kind from the international institutions if they are prepared to undertake the necessary macro-economic policy measures. These not only help the borrowing country but also safeguard the interests of all creditors. We have allocated to the IMF the task of agreeing the form of these macro-economic measures and it has fulfilled this task well.

The IBRD's approach to the present Argentine loans threatens to make it more difficult for the IMF to insist on the necessary reforms in Argentina. The IBRD's proposals undermine the position of other creditors - both Paris Club governments and commercial banks. In the long run, it also puts at risk the World Bank's own money. The IBRD has neither secured adequate domestic policy



measures, nor has it identified how Argentina's huge balance of payments gap is to be financed. I need hardly remind you that Argentina's payments arrears this year alone are currently estimated at \$1.8 billion.

I am particularly concerned at the precedent this World Bank operation would set for other debtor countries. Mexico and Nigeria come to mind where the World Bank has been keen to play a leading role.

The UK has supported the IMF's key role in managing the debt crisis, and I do not think that we should abandon our position now. I agree with you that we should press Conable to bring the World Bank loans forward for agreement in principle only, with disbursement conditional on approval by the Fund Board of an IMF programme. We should continue with our efforts to muster support among other countries for this approach. Our soundings in both Washington and Brussels have revealed widespread unease with Conable's approach, including that of the IMF Managing Director, Camdessus.

If Conable, however, insists on bringing forward the loans in their present form, I believe that the UK should vote against them. I would hope that others would join us - but even if they do not I believe that we should stick to the consistent approach of principle that we have adopted in the past and oppose these loans in the absence of an IMF programme agreed at least in principle. We should make clear in the IBRD Board that our voting reflects solely our concern about the point of principle and is not based on political considerations. Our support for the housing sector loan (see below) provides a useful demonstration of this.

I understand that the French may present a compromise which would limit IBRD disbursements to the first tranche of the trade policy



loan but would make subsequent disbursements of both the trade policy and banking sector loans subject to approval of an IMF programme. This would of course still represent some weakening of industrial countries' previous approach but if there is support among G7 countries I could accept that the UK should abstain on the trade policy loan and support the banking sector loan. We should make clear our concern at the continuing trade discrimination practised by Argentina.

I agree with you that we should vote for the housing loan but abstain in company with other G7 countries on the power loan.

I am copying this to the Prime Minister, the Secretary of State for Trade and Industry and to Sir Robin Butler.

Handwritten signature

pp. [N.L.]

[Approval by the Chancellor and signed on his behalf]

26 October 1988