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DESKBY 170900Z

FM UKDEL IMF/IBRD WASHINGTON 162330Z JUN 83

TO IMMEDIATE F C O

TELEGRAM NUMBER 229 OF 16 JUNE

*W. Scholar.**AR 17/16*

YOUR TELNOS 174, 180 AND 181

IMF: ARGENTINA--FINANCIAL RESTRICTIONS

1. DURING A ROUTINE CALL ON THE MANAGING DIRECTOR THIS AFTERNOON, I ASKED ABOUT HIS VIEWS ON THE OUTSTANDING ARGENTINE FINANCIAL RESTRICTIONS, AND SPOKE AS INSTRUCTED IN PARA 3 OF YOUR TELNO 174, AND PARAS 2-3 OF TELNO 180, AS AMPLIFIED BY TELNO 181.
2. THE MD, QUOTING FROM HIS BRIEF, SAID THAT HE UNDERSTOOD THAT BRITISH FINANCIAL INSTITUTIONS WERE NOW ALLOWED TO REPATRIATE MONIES AND THIS HAD BEEN CONFIRMED TO LLOYDS AND BARCLAYS. BUT HE ALSO UNDERSTOOD THAT THE ARGENTINE AUTHORITIES CONTINUED TO DENY BRITISH INDUSTRIAL AND COMMERCIAL FIRMS SIMILAR FACILITIES. THE FUND STAFF UNDERSTOOD THAT THIS WAS INTENDED AS A MEANS OF PUTTING PRESSURE ON THE U K TO REDUCE THE SIZE OF THE EXCLUSION ZONE.
3. LAROSIERE THEN SAID THAT THE LIFTING OF THE RESTRICTIONS FROM THE FINANCIAL INSTITUTIONS WAS A STEP IN THE RIGHT DIRECTION, BUT IT WAS CLEAR THAT NOT ALL OF THE EXCHANGE RESTRICTIONS HAD GONE. HE WOULD MAKE THIS CLEAR TO MR DEL SOLAR WHEN HE SAW HIM IN WASHINGTON ON FRIDAY, JUNE 24 WHEN HE WOULD PRESS HIM VERY HARD TO REMOVE THE REMAINING RESTRICTIONS.
4. THE MD THEN SAID THAT PROCEDURALLY, THE NEXT STEP WITHIN THE FUND WOULD BE FOR HIS STAFF TO SUBMIT TO HIM A PAPER ON THE STATE OF THE PROGRAM IN EARLY JULY. UNLESS THE ARGENTINES REMOVED THE REMAINING FINANCIAL RESTRICTIONS, IT WAS CLEAR TO HIM THAT HE COULD NOT EASILY DISTRIBUTE A PAPER TO THE EXECUTIVE BOARD ON THE PROGRAM.
5. WE NEXT DISCUSSED WHAT MIGHT THEN ENSUE. THE REVIEW, CALLED FOR UNDER THE ARRANGEMENT, WOULD NOT BE COMPLETED AND THE NEXT DRAWING COULD NOT BE MADE. THIS WOULD CALL INTO QUESTION, TO SAY THE LEAST, THE PROVISION OF FURTHER PRIVATE BANK LENDING TO ARGENTINA. THE MD DID NOT KNOW HIS REACTION IN THOSE CIRCUMSTANCES, BUT HE THOUGHT THAT HE WOULD PLAY EVERYTHING QUOTE LEGALISTICALLY UNQUOTE. IT WAS ALWAYS POSSIBLE THAT THE ARGENTINES WOULD ACT IRRATIONALLY IN SUCH CIRCUMSTANCES BY DECLARING SOME SORT OF DEFAULT, BUT HE THOUGHT IT UNLIKELY. THEY MIGHT TRY TO INVOKE THE FUND DECISION NO. 144(52/51 )  
OF AUGUST 14, 1952, WHICH PERMITS MEMBERS TO IMPOSE PAYMENTS RESTRICTIONS FOR SECURITY REASONS. THE MD SAID THAT THIS DECISION WAS AN UNSATISFACTORY ONE, BUT IT HAD BEEN INVOKED BY THE UNITED STATES IN THE CASE OF IRAN AND VIETNAM. I SAID THAT THESE WERE

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QUITE DIFFERENT CIRCUMSTANCES AND NO ONE COULD ARGUE THAT THE ARGENTINIAN FINANCIAL RESTRICTIONS HAD ANYTHING TO DO WITH NATIONAL SECURITY. LAROSIERE WAS INCLINED TO AGREE BUT SAID THAT IF THE DECISION WAS INVOKED, ITS APPLICATION WOULD NEED TO BE DECIDED BY THE EXECUTIVE BOARD. HE THOUGHT THAT THE ARGENTINIANS WOULD LOSE THE ARGUMENT THERE.

6. MY ASSESSMENT OF THE MANAGING DIRECTOR'S POSITION IS THAT HE IS STILL COMMENDABLY SOUND AND INTENDS TO CONTINUE TO REGARD THE OUTSTANDING FINANCIAL RESTRICTIONS AS INCONSISTENT WITH THE FUND PROGRAM AND PRACTICE. HE EXPLICITLY CONFIRMED THAT THE CONTINUED DISCRIMINATION AGAINST NON-BANK COMPANIES IS REGARDED BY THE STAFF AS AN UNACCEPTABLE EXCHANGE RESTRICTION. HE IS, HOWEVER, CLEARLY UNEASY THAT THE CONTINUENCE OF THE RESTRICTIONS WOULD JEOPARDISE THE CONTINUENCE OF THE ARGENTINE FUND PROGRAM. HE GAVE ME NO INDICATION THAT THIS WOULD ALTER HIS ATTITUDE.

7. THE MD SAID THAT HE WOULD LET ME KNOW WHAT HAPPENS AT HIS MEETING WITH DEL SOLAR ON JUNE 24.

8. F C O PLEASE ADVANCE TO LITTLER AND LAVELLE (TREASURY), LOEHNIS (BANK OF ENGLAND) AND APPELYARD (ERD).

WICKS

ADVANCED AS REQUESTED

MONETARY  
FID  
ERD  
MR GIFFARD  
MR URE

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