RESTRICTED

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

W F S Rickett Esq
10 Downing Street

10 August 1983

Prime Minister

Agreed ms

WR 11/8

Dear Willie,

TREASURY INDEMNITY FOR THE BANK OF ENGLAND - BRAZIL

This letter seeks clearance for the publication of a White Paper reporting changes in the terms of the Treasury indemnity to the Bank of England in respect of their participation in the BIS facility for Brazil.

In accordance with procedures agreed with the PAC we are required to inform Parliament of any non-statutory indemnities and to keep Parliament informed of any subsequent changes.

We published a White Paper last December (Cmnd 8779) on the terms of the Treasury indemnity associated with the financing arrangements for Brazil. Changes since then - mainly the suspension of IMF drawings and the resulting postponement of BIS repayments - have made it necessary to extend the period of the Treasury indemnity beyond the end of this month. This change is significant enough to require a new announcement.

The Chancellor has approved the attached text. Our intention is to publish it as a White Paper within the next two weeks. I would be grateful for your clearance.

Yours,

Judith

MISS J C SIMPSON
Private Secretary

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DRAFT WHITE PAPER

REVISIONS TO THE TERMS OF AN INDEMNITY TO THE BANK OF ENGLAND COVERING THEIR COMMITMENT TO THE BANK FOR INTERNATIONAL SETTLEMENTS IN RESPECT OF A CREDIT FACILITY FOR BRAZIL

Under arrangements agreed with the Committee of Public Accounts (Thirteenth Report, Session 1979-80, paragraphs 14-17) any proposal by a Government department to give a non-statutory guarantee or indemnity involving a contingent liability exceeding £100,000 is required to be the subject of a minute laid before Parliament.

2. In accordance with these arrangements the terms of a Treasury indemnity to the Bank of England covering their commitment to the Bank for International Settlements (BIS) in respect of a credit facility for the Banco Central Do Brasil (Banco Central) were reported last December in a minute published as Cmnd 8779. The purpose of this subsequent minute is to report modifications in the terms of the agreement since then.

3. The original short term facility offered by the BIS amounted to $1.2 billion and was to be repaid in instalments by the end of August 1983. The BIS financed the facility from its own resources but with a right of recourse to participating central banks under a substitution agreement. The Bank of England's contingent liability under this arrangement was for a capital sum of $110 million and any associated interest costs, and this commitment was covered by the Treasury indemnity.

4. At an early stage the total facility was increased to $1.45 billion by the participation of an additional central bank and the repayment schedule was extended to the end of November 1983.

Although this could have the effect of extending the period of the Bank of England's contingent liability it did not affect the amount. The first instalment of $400 million has since been repaid by Banco Central, reducing the total amount outstanding under the facility to $1.05 billion. As a result the capital amount of the Bank of England's contingent liability has fallen to $47,142,857.

5. Following the suspension of IMF drawings for Brazil, the BIS agreed to postpone the second instalment of $400 million due at the end of May, first until the end of June and then until 15 July. The Banco Central then intimated that they were unable to make repayment on that date. No further formal extension has been agreed, but the BIS have decided to take no action for the time being and in particular have not required the participating central banks to meet their commitments under the substitution agreement in respect of that instalment. This decision was influenced by the progress in Brazil's negotiations with the IMF and the expectation that Brazil would be able to resume drawings from the IMF in due course.

6. Since it is now possible that the Bank's contingent liability could extend beyond the end of August the Treasury have confirmed to the Bank that in those circumstances the indemnity will continue to apply.