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FM WASHINGTON 130100Z JUN 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 1848 OF 12 JUNE

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ARGENTINA AND THE IMF

SUMMARY

1. THE US TREASURY, STATE DEPARTMENT, AND THE FEDERAL RESERVE ARE TRYING THEIR BEST TO BE OPTIMISTIC ABOUT THE ARGENTINE GOVERNMENT'S INTENTION TO PRESENT THEIR OWN 'LETTER OF INTENT' TO THE IMF. BUT THEY ACCEPT THAT THE WEEKEND'S EVENTS IN ARGENTINE REPRESENT A REAL SETBACK. THEY EMPHASISE THAT THE WAY IS STILL OPEN FOR DISCUSSIONS TO CONTINUE BETWEEN THE FUND AND THE AUTHORITIES.

DETAIL

2. MULFORD (ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, US TREASURY) EMPHASISED THAT NOTHING HAD BEEN SAID WHICH WOULD PREVENT FURTHER DISCUSSIONS AND NEGOTIATIONS BETWEEN FUND STAFF AND THE AUTHORITIES. THERE HAD BEEN ENORMOUS PROGRESS, IN HIS VIEW, IN THE LAST FIFTEEN DAYS IN ACHIEVING THE POLITICAL CONSENSUS BETWEEN THE ARGENTINE POLITICAL PARTIES ABOUT ECONOMIC REFORM. FROM HIS OWN TALKS WITH PRESIDENT ALFONSIN HE WAS CONVINCED THAT THE PRESIDENT WANTED AN IMF PROGRAM AND KNEW THAT THERE WAS NO ALTERNATIVE TO ONE IF HIS COUNTRY'S DEBTS WERE TO BE REFINANCED.

3. MULFORD ADMITTED THAT EVENTS OVER THE WEEKEND AND THE PUBLICATION OF THE SO-CALLED LETTER OF INTENT RAISED DIFFICULTIES. PRESIDENT ALFONSIN HAD PUT HIMSELF INTO A TIMETABLE BOX BECAUSE OF HIS DEPARTURE FOR SPAIN. MULFORD EMPHASISED THAT THE PUBLICATION OF THE LETTER OF INTENT NEEDED TO BE VIEWED AGAINST THE ARGENTINE LOCAL POLITICAL CIRCUMSTANCES. IT WAS OF PARAMOUNT IMPORTANCE FOR THE GOVERNMENT TO BE ABLE TO DEMONSTRATE TO THEIR OWN PEOPLE THAT ANY ECONOMIC AUSTERITY PROGRAM ADOPTED WAS THEIR OWN (UNDERLINE LAST WORD) PROGRAMME, AND NOT ONE FOISTED UPON THEM FROM OUTSIDE. IT REMAINED TO BE SEEN WHETHER THIS APPROACH COULD BE RECONCILED WITH THE NEEDS OF THE IMF.

4. ON RENEWAL OF THE US TREASURY GUARANTEE (WHICH WAS AN ELEMENT IN THE END-MARCH FOUR-COUNTRY/BANKERS PACKAGE), MULFORD SAID THAT IT WAS THE TREASURY'S PRESENT (UNDERLINE LAST WORD) INTENTION NOT TO RENEW THIS FACILITY AFTER IT EXPIRED ON JUNE 15. BUT NO FINAL DECISION HAD YET BEEN MADE, LET ALONE COMMUNICATED TO THE ARGENTINEANS.

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5. TRUMAN (DIRECTOR OF THE DIVISION OF INTERNATIONAL AFFAIRS AND THE FED) WAS MORE GLOOMY THAN MULFORD. HE SAID THAT THE 'LETTER OF INTENT' SEEMED TO BE MORE IN THE NATURE OF AN IMF STAFF APPRAISAL RATHER THAN AN ORTHODOX LETTER OF INTENT. IT WAS UNHELPFUL BECAUSE IT WAS TOO SPECIFIC ABOUT THE FUTURE ECONOMIC POLICY. HE DID NOT SEE HOW THE US TREASURY COULD RENEW THEIR GUARANTEE. THOUGH HE KNEW THE UK AUTHORITIES TOOK A DIFFERENT VIEW, HIS PERSONAL VIEW WAS THAT THE BANKS WOULD BE WELL ADVISED TO DISBURSE THE REMAINING PART OF THE MEDIUM-TERM LOAN AT AN EARLY STAGE. THEY WOULD THEN AT LEAST OBTAIN THE BENEFIT OF THE DLRS 400 MILLION FROM THE ARGENTINE RESERVES. THIS MIGHT NOT BE ON OFFER LATER ON.

6. JETT (STATE DEPARTMENT OFFICE FOR SOUTHERN CONE AFFAIRS) ALSO DID HIS BEST TO BE OPTIMISTIC. THE ARGENTINE ACTION HAD NOT BEEN ALTOGETHER UNEXPECTED BUT THAT THE TIMING HAD TAKEN THE STATE DEPARTMENT A LITTLE BY SURPRISE. THIS LATEST DEVELOPMENT SHOWED THAT, FOR NOW, DOMESTIC POLITICAL CONSIDERATIONS HELD THE UPPER HAND IN BUENOS AIRES OVER FUND/ECONOMIC CONSIDERATIONS. JETT CLAIMED, HOWEVER, THAT DISCUSSIONS WERE STILL CONTINUING BETWEEN THE AUTHORITIES AND FUND STAFF. HE FELT THAT THE REAL WAGES ISSUE WAS AT THE HEART OF THE PROBLEM. THE PERONISTS WERE NOW CLOSELY IDENTIFIED WITH THE GOVERNMENT'S STANCE AND, WITH THE UNIONS THREATENING FROM THE WINGS, IT REMAINED TO BE SEEN WHETHER SUCCESSFUL FURTHER NEGOTIATIONS WERE POSSIBLE AGAINST THIS WAGES BACKGROUND.

7. JETT AGREED THAT THE US WAS AS KEEN AS EVER TO SEE AN IMF PROGRAM AGREED. HE CONFIRMED THAT THE ARGENTINES WERE CONTINUING TO STRESS TO THE AMERICANS THAT THIS WAS, FUNDAMENTALLY, A POLITICAL ISSUE. PRESSED, JETT SAID THAT HE BELIEVED ANOTHER COMPROMISE OF SOME SORT WOULD BE REACHED IN THE END, SINCE NO ONE HAD AN INTEREST IN FAILURE (PARTICULARLY HAVING COME THIS FAR). BUT HE DID CONCEDE THAT THE ARGENTINE LETTER HAD CAUSED SOME IRRITATION TO THE BILATERAL RELATIONSHIP. HE RECOGNISED THAT OTHER DEBTORS WOULD BE WATCHING CLOSELY FOR PRECEDENTS.

8. JETT DID NOT FEEL THAT THE JUNE 15 DEADLINE FOR THE US GUARANTEE WAS TOO SIGNIFICANT. EVEN IF IT WAS NOT FORMALLY EXTENDED, THE AMERICANS COULD STILL BAIL OUT THE MEXICANS, COLOMBIANS, VENEZUELANAS AND BRAZILIANS ONCE AN IMF PROGRAM WAS IN PLACE. JETT HINTED THAT SOME INFORMAL AND UNWRITTEN UNDERTAKING BY THE US TO DO JUST THAT WAS NOW UNDER CONSIDERATION. HE HOPED, HOWEVER, THAT THE POSITION WOULD BECOME RATHER CLEARER OVER THE NEXT WEEK, HIS GREATEST CONCERN WAS THAT, BY THE END OF THE MONTH, US BANKS SEEMED LIKELY TO HAVE TO DECLARE A LARGE NUMBER OF ARGENTINE LOANS AS 'NON-PERFORMING'. THIS THREAT WOULD OF COURSE ENCOURAGE THE AMERICANS TO TRY TO SEE THAT AGREEMENT WAS REACHED. (TRUMAN, UNLIKE HIS CHAIRMAN IN HIS CONVERSATION WITH YOU ON MAY 31, WAS NOT TOO CONCERNED AT THE PROSPECT OF THE US BANKS HAVING TO DECLARE THEIR ARGENTINE LOANS AS 'NON-PERFORMING'. THE MARKET MUST HAVE ALREADY DISCOUNTED THAT PROSPECT).

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9. THOUGH DISMAYED BY DEVELOPMENTS, THE US AUTHORITIES SEEM READY TO GIVE THE ARGENTINEANS THE BENEFIT OF THE DOUBT AND ARE ANXIOUS FOR THEIR DISCUSSIONS WITH THE FUND TO CONTINUE. THE SCOPE FOR A SUCCESSFUL OUTCOME TO SUCH DISCUSSIONS WILL DEPEND, IN PART, ON THE PRECISE TERMS OF THE "LETTER OF INTENT" AND ON THE COMMITMENTS WHICH THE ARGENTINE GOVERNMENT HAS ENTERED INTO WITH CONGRESS ABOUT IT. IF THE GAP BETWEEN THE FUND AND THE ARGENTINEANS LOOKS TO BE BRIDGEABLE, THE US AUTHORITIES CAN BE EXPECTED TO BRING CONSIDERABLE PRESSURE TO BEAR ON FUND MANAGEMENT TO AGREE A LETTER OF INTENT.

10. FCO PLEASE ADVANCE TO LITTLE, UNWIN, AND MOUNTFIELD (TREASURY), LOEHNIS AND GILCHRIST (BANK OF ENGLAND), TAIT (ERD).

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