

NOTE FOR RECORD

Copies to Mr Loehnis o/r
Mr Balfour o/r
Mr Holland
Mr P J Bull o/r
GPS

HUNGARY

The Deputy Governor telephoned Sir Kenneth Couzens this evening and brought him up to date on developments regarding Hungary.

The Deputy Governor stressed that Leutwiler is now convinced that Hungary has a major immediate problem and he is now working on putting together a \$500 mn package of which \$100 mn should be made available this month. De la Geniere, Pöhl, Duisenberg, Godeaux and Ciampi have already expressed themselves favourably disposed to this but subject to Government agreement. The form would probably be that the BIS would make a \$100 mn loan for three months to Hungary; the participating central banks would each guarantee a proportion of the loan, and where appropriate (in effect in all cases) these guarantees would be counter-guaranteed by the respective governments.

The Deputy Governor's purpose now was to urge Sir Kenneth to raise this question so that we could have a view by the end of the week. The Bank was asking for a response from HMG that, if this scheme went ahead, we should do our part. There was now no question of us getting ahead of the others. On the size of individual shares, ours was likely to be \$20 mn-\$25 mn - possibly the same as that of Germany, France, and perhaps the Netherlands.

Sir Kenneth queried whether we should pay as much as some other countries, since there was always some advantage in

reminding them that they are stronger than we are. However, he agreed that this was a secondary issue.

There was then a discussion on the role of the Americans. The Deputy Governor repeated his point that it would be highly desirable to have a US declaration that they regarded Hungary as different from the other East European countries. Sir Kenneth felt it would be extremely difficult to get such a declaration. He had spoken to Leland who seemed personally favourable, but who had pointed out that the administration would find it much easier to make a public declaration if this could be combined with an agreement to restrict credit to the Soviet Union and Eastern Europe. Couzens had refused to countenance such linkage, pointing out that differentiation for Hungary should be accepted on its own merits. However, meetings with the Buckley Commission did not portend well. Buckley was evidently pushing the line that we should end all subsidised credit to the Soviet Union and Eastern Europe and should scale down all other credit to them as well. This was the price of acquiescing in a continuation in the pipeline project.

The Deputy Governor felt, however, that there were also hopeful signs from the US. They had not objected to Hungary's membership of the IMF, and had not been unhelpful during discussions on the size of the Hungarian quota.

Sir Kenneth asked whether the Russians would also be expected to help the Hungarians. The Deputy Governor reported Fekete's statement that the Hungarians were behaving very toughly with them. It was clear that the Hungarians would be extremely pleased if they could "bring back into the coop the chicken that nearly got away".

Sir Kenneth concluded that he felt \$20 mn would probably be acceptable to HMG but they might balk if the UK were to contribute a bigger share. He promised to relay the decision to the Deputy Governor as soon as possible.

Deputy Governor's Secretariat HO-P
17 March 1982

C A Enoch (4498)

CAE