

THE GOVERNOR

Copies to Mr Blunden  
Mr Loehnis o/r  
Mr George  
Mr Cooke  
Mr Balfour  
Mr Holland  
Mr Somerset  
Mr P J Bull o/r

HUNGARY

On Saturday evening in Washington I talked to Whittome about the Hungarian situation.

As background Whittome said that Fekete had told him late last year that his end-December reserves would be \$1.8bn, of which \$0.4bn would be window dressing. Immediately after the end-year the \$0.4bn duly disappeared; then the Russians and OPEC depositors took away \$1bn, leaving him with around \$0.4bn. He said there was no question of the truth of the Russian withdrawals. Fekete had asked him what to tell Sprinkel and Whittome had said "the truth". I said how unhappy we were that the Governor had not been told by Timar about the Russian withdrawals. Whittome's only explanation was that Timar was less than fully informed on external questions. (Surely implausible?) He said that he believed there was a good deal of tension between Timar and Fekete and that Fekete had the more powerful entree into the top echelons of the party.

On the IMF application, Whittome said last week had been an anxious one in which at one stage it looked likely that the US would not support Hungary in the Executive Board meeting next Friday, 2 April. Whittome and Erb (of whom he spoke highly) had been working to keep them simply abstaining and not lobbying anyone else. It now looked better but there would still have to be another inter-agency meeting to discuss it this week. The most likely outcome would be to let the application go through at this stage but to still reserve the right to be difficult in the postal vote to the Board of Governors.

Assuming that all went well however, Whittome still envisaged that the Hungarians would be in before Helsinki. The Fund would send a mission immediately and would aim to draft proposals by the BIS AGM. He hoped this could all lead to a drawing by November/December. I queried him on the plausibility of this timetable, saying that I had heard that no other new entrant had got money as quickly as he was envisaging for the Hungarians. He rather shrugged this off, though admitted that the Americans could prove difficult and that he thought that \$600mn (150% of quota) could prove optimistic. He still felt fairly confident about the \$400mn (100% of quota).

On the immediate situation I brought him up to date with the developments on the BIS \$100mn loan, saying I hoped we would manage to persuade the Treasury and join the operation early this week. I went on to say, however, that for any further central bank/government money I thought the Hungarians would have to make more of a presentation than they have to date - some facts and figures on their reserves, balance of payments prospects and policies. Whittome took the point and undertook to relay it to Fekete. He then told me that Harry Taylor (Manufacturers Hanover) had been in touch with him and was trying to put together with some others of the New York banks a short-term facility for \$250mn. Taylor had apparently said something about securing it on prospective trade flows but, though Whittome did not know the details, I gathered that this was likely to be something of a cosmetic device. Taylor was due to meet Clark (ex-State Department and now senior and influential in the White House) on Tuesday. Following the Fekete visit to Reagan, of which we had reports, this would simply be an attempt to get a nihil obstat from the White House, not a blessing. Whittome said that he was, however, by no means sure that the nihil obstat would be forthcoming.

Next morning at breakfast with the Ambassador and Harry Walsh, I outlined the full background to the Hungarian position and said I wondered whether he might be able to help with the Administration. Henderson immediately understood the importance of the issue and was thoroughly sympathetic but he expressed concern at

the extreme lack of sophistication of the present Administration and the difficulty in getting the White House to admit the possibility of any differentiation between "commies". He was horrified to learn that Clark was in a position to decide on this issue, casting some doubt on whether he knew where Hungary was. However, he said that we had some goodwill in Washington at present, partly due to our sending observers to El Salvador but also because we were perceived more generally to be more sympathetic than other Europeans. Subject to discovering what was the appropriate time to go in and at what level, Henderson said that the Embassy would certainly be prepared to intervene. It was left that Walsh would this morning find out from Leland and/or Hormats where things stood and at what point Clark would be sufficiently briefed to make it appropriate for Henderson to see him personally. I shall be talking to Walsh about all this later today.

The Manufacturers Hanover initiative together with LFTS's disturbing note of 26 March on Comecon indebtedness suggest to me that we should now be thinking of talking to the clearing bank chairmen.

*Cwm*

*Tei* 25 APR 1985

29 March 1982