

NOTE FOR RECORD

Copies to Mr Blunden  
Mr Loehnis o/r  
Mr Cooke  
Mr Balfour  
Mr Holland  
Mr Smith  
GPS

## HUNGARY

The Governor asked Morse to come in yesterday to discuss the situation of banking credit to East European countries. He began by asking Morse what impressions he had gained from Washington. Morse gave a fairly bland and unconcerned account. He recognised the voices within the Administration who were against any "differentiation" but hoped they could be contained. He said he expected small banks to be cutting out their exposures (more or less without differentiation) but said he understood their attitude and appeared unconcerned by it. Big banks he said he thought would stay put. He had seen Harry Taylor but Taylor had clearly not mentioned the possibility of doing something for Hungary. He had talked to Solomon, who mentioned in vague terms a possible BIS operation. In general, Morse appeared to have a rather slow timetable envisaged. He believed that the Hungarians would be able to join the IMF and in due course, under appropriate conditionality, make a drawing but he did not appear aware of any short-term difficulties which might lie in the way of this.

The Governor then retailed to him the gist of LFTS's note of 26 March, making clear that the remarks made purported to refer to clearing bank behaviour. The Governor also told him about the BIS operation. Morse appeared to take the point quite quickly. He asked whether the BIS operation was meant as a "flag" and whether the Governor was pressing him to press his

colleagues to do something positive. The Governor was cautious and non-committal on this. It was left that Morse would raise the question with his colleagues at the next CLCB meeting which conveniently is tomorrow. He would mention the Governor only in the context that the Governor had spoken to him on the general subject in the margins of the last CLCB meeting in the Bank. He would then revert.

Cwm

31 March 1982

*Let*

25 APR 1985