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~~W. Henley~~
② File Saudi Tornados

04 NOV 1986

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3 November 1986

~~W. Henley~~

JJ 149

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Dear Bob

SAUDI ARABIA: TORNADOS
(ECGD's letter of 23 October)

Our views on this project and on the Saudi economy were set out in my letters of 9 January and 13 February and in Kevin Butler's letter of 10 September and we have little by way of further comment on these latest developments. Although Saudi foreign exchange reserves as denominated in SDRs showed a slight upturn in August 1986 (according to the October IFS) their halving over the last twelve months means that the decline which started in the early 80s has continued. While the trend this year owes something to the depreciation of the dollar, the resulting continued deterioration in the purchasing power of the Saudi Reserves represents another strain on the economy. This may possibly come to affect the Yamamah project; if reserves are under pressure, the Saudis may wish to sell more oil to top them up and therefore be unwilling to maintain the oil supply contract. The recent sudden departure of Sheikh Yamani is of course another cause for uncertainty.

As to the responses ECGD proposes to make to the various requests for extension of their cover, these inevitably reflect political as much as economic factors. On the question of possible Saudi interference in the transfer of the oil revenues, it had already been pointed out (by Will Pedder in his letter of 4 September) that insurance of oil delivery risk would not necessarily ensure security of receipts, and we would agree that ECGD's cover could be considered deficient in this respect and should be enlarged. We would hope, however, that in the event of Banque Indosuez (BIS) not receiving any reimbursement for a number of weeks or months, losses would be minimised by delaying further deliveries. We would be interested also to know whether the new safeguards now being sought by BIS are those refused to Lloyds - which enabled BIS to supplant them (see para 3 of Peter Henley's letter of 29 August).

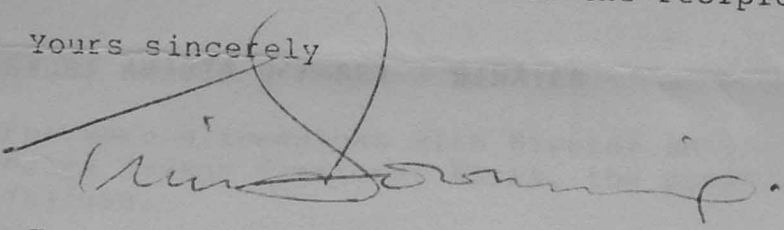
Peter Henley mentions in his last paragraph the possibility of a further EGC meeting; as Kevin Butler said in his letter of

10 September, we do think that this would be desirable as there are a number of questions which still need clearing up - for instance, who is the borrower and the question of timing; these considerations will influence how and when this transaction impacts on the monetary aggregates, and consequently are of concern to our statisticians on the monetary control side.

Finally, I should like to emphasise again a point which is of concern to the banks involved, and which Kevin mentioned in his letter, namely that this lending seems unlikely to attract a nil-weighting for risk/asset purposes. It is important that the banks realise this as it will undoubtedly affect the price of the loan.

I am copying this letter to the recipients of Peter Henley's.

Yours sincerely



T J H Downing