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PART. A

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PART. A

INTERNATIONAL BANK
FOR RECONSTRUCTION AND
ANNUAL MEETINGS BELGRADE.

1982

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REGISTRY SYSTEM

Item 20

1979 Belgrade.
1980 Hamburg
1981 Washington.
1982 Helsinki
1983 Washington

~~Mr~~ Smallwood

CONFIDENTIAL

SAVINGRAM

Item 20

1227/03—21

TREASURY
- 7 DEC 1979
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BY BAG

CONFIDENTIAL

FROM UK DELEGATION TO IMF/IBRD ANNUAL MEETINGS BELGRADE

TO FCO SAVINGRAM 02 OF OCTOBER 4, 1979. INFO:SAVING UKDEL WASHINGTO

IMF: INTERIM COMMITTEE--SUBSTITUTION ACCOUNT

1. The Committee discussed the proposals for a Substitution Account (SA) on October 1, 1979. A summary of the discussion was sent in Belgrade Telno 179. Fuller details herewith.

2. The Managing Director made an opening statement. He realised that the current proposal was more modest than any ideas for reforming the whole international monetary system; it was only one aspect, and should not therefore be linked with other proposals for reform. The major objective of the SA was to enhance the rôle of the SDR. By giving reserve holders another asset to choose from, stability would be improved, he claimed.

3. LDC members dominated the earlier part of the discussion. Leal (Spain) said that his countries' support depended on the characteristics of the SA, in particular the nature of the new asset, how it was introduced, and the effects of the SA on exchange markets. It was important that the SA should strengthen the adjustment system, and promote symmetry in adjustment between reserve centres and other countries. A secondary market with private holders was needed to ensure liquidity. The maintenance of the asset's value was fundamental. He was doubtful that the SA would have positive effects on exchange markets. He could support further studies, but there would have to be the most far-reaching analysis before an SA could be introduced.

/4. Similar comme

4. Similar comments were made by many other members. Vincent (Nigeria) more explicitly questioned the lack of a constraint on the United States creating new dollar liabilities in place of those substituted. He doubted that the SA would either help stabilise the dollar or enhance the SDR. Diz (Argentina) expressed similar doubts clearly and strongly. This proposal was not the SA suggested six years ago: there were no rules for adjustment, no controls on international liquidity. This would be a move to an SDR-based system, not an SDR system. Was creating a new asset denominated in SDRs the best way to promote the SDR? And what might be the effects on the international capital markets? This concern about the effects on the SA on international capital markets was voiced by several LDC Directors. Rischbieter (Brazil) was most explicit, saying that the problems which might arise from a withdrawal of dollar reserves from the euro-markets must be examined.

5. Wardhana (Indonesia) made a more positive intervention, but nevertheless stressed the ambiguity of objectives behind the proposal, and the number of questions still to be resolved. He regretted that disagreements on fundamental issues had been suppressed in the Board's report, especially on how to maintain the asset's value. Like others, he emphasised that his constituents had not so far agreed to participate in any SA that might be established. Nabulsi (Jordan) and Reghaye (Moroc made similar points about the number of questions to be resolved.

6. Only two LDC members spoke in a really encouraging way. Abal-Khail (Saudi Arabia) said the desirability of an SA was clear. It could bring

/added stability

added
/stability to the system, and help countries protect the value of their reserve holdings. The main conditions to be fulfilled were that the asset's yield would be competitive with the market, the interest and exchange guarantee arrangements must be such that it would maintain its capital value at all times, and it must be highly liquid and widely acceptable to official and private holders. Patel (India) also found the idea of an SA inviting, and wondered if a greater consensus could not be reached at the meeting. Even if some "more affluent members of the world community" saw costs in the proposal, he hoped that would not prevent agreement. However, he did question the idea of making the substitution permanent, and emphasised that the liquidity of the asset should be assured with there being no cost to the holder if he wished to convert back into usable currencies.

7. After hearing most of the above speakers, Lahnstein (Germany) made only a short statement to the effect that the text before the meeting provided the basis for the Board to produce a relatively full scheme by next spring's meeting. If we tried to design a global reform, we should never get there. Miller (United States) followed even more briefly, saying members should be cautious about judging the proposal before the Board had tried to reach agreement. The SA would be satisfactory only if there was sufficient voluntary participation. The Chancellor too was brief: he thought the SA was an idea whose disappearance would be generally regretted. He enumerated the requirements for an SA on lines close to those appearing later in the Communiqué.

/8. But other

8. But other developed members voiced, in varying strength, the concerns expressed by LDC speakers. Howard (Australia) made a very forthright statement, saying his reservations were ones of principle, not detail. The technical questions of designing a sufficiently attractive asset to attract participation (which implied fair burden-sharing of the exchange rate guarantee, and providing as good liquidity as the dollar now offered) whilst not prejudicing demand for the SDR itself, were not inconsiderable. More fundamentally, he doubted that an SA would contribute to stability. In particular, it would remove present disciplines on reserve centres and on holders of reserve currencies.

9. Camdessus (France) saw the main objective of the SA as providing a means of diversification, which he said was wanted by the US and some dollar holders; the promotion of the SDR was not so important. He understood that widespread voluntary participation was needed for the SA to be credible: that implied putting the accent on yield, full transferability, and amortisation. The Board would have to strike a balance. A particular problem could be created for the account by variations in the gap between short- and long-term dollar interest rates. In any event, there would have to be better control of the future growth of dollar balances.

10. Morinaga (Japan), in an intervention which was very favourable to the idea of an SA, supported it as a move to an SDR system, but also saw it as a way to avoid the disruptive effects of diversification However, it would be useless if there were continued outflows of dollars afterwards, and the US would need to maintain a policy stance conducive to a stable dollar. Also the new asset had to be attractive to holders

/Baffi (Italy)

Baffi (Italy) spoke in a similar vein. There must be no weakening of international discipline; indeed, improvements in adjustment and in national policies were essentials. He emphasised that the capital and interest provisions must keep the account solvent at all times. Andriessen's (Netherlands) attitude was similar. The SA would degenerate into little more than an intervention arrangement if it were not placed in the context of arrangements to improve adjustment and make it more symmetrical, and to providing better control of international liquidity. As regarded provisions for maintaining the value of the asset and burden-sharing, all parties concerned would have to play a constructive role.

11. Muehlen (Luxembourg) also said that benefits and costs would have to be shared fairly. Widespread participation, attractive yield, and liquidity provisions were important. Colley (Ireland) mentioned the same features, but also thought that amortisation needed to be considered. The SA would be successful only if it promoted adjustment. Speaking last, Hoffmeyer (Denmark) said he had hoped for more discussion of technicalities. He too said widespread participation, yield and liquidity were important, but he did say that depositors should carry a large share of the exchange rate guarantee.

12. The outcome of the session is stated in Paragraph VII of the Press Communique (Belgrade Telno 174).

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SAVING TELEGRAM

TREASURY
30 OCT 1979
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BY BAG

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FROM UK DELEGATION TO IMF/IBRD ANNUAL MEETINGS BELGRADE

TO FCO SAVINGRAM 03 OF 4 OCTOBER 1979. INFO: SAVING UKDEL IMF/IBRD WASHINGTON

IMF: INTERIM COMMITTEE - WORLD ECONOMIC OUTLOOK

1. The Committee discussed the World Economic Outlook on 1st October. A summary of the discussions was sent in Belgrade Tel no. 179.
Herewith further details.

2. The Managing Director made a statement on the lines of his written submission to the Committee. Colley (Ireland), on behalf of the Community, read the statement agreed by EEC Ministers.

3. Miller (US) thought that although the world faced some problems similar to those of 1974, there was now a better balance in world growth than then: the US, and possibly the UK, economies were showing signs of weakness; others, notably Japan and Germany were growing. For 1980, he could be reasonably optimistic, but therafter the inflexible supply of energy would produce strains. There were already inflationary pressures throughout the world, following the rise in oil prices. He thought private capital markets could cope with the big shifts in payments balances; and if they could not do the entire job, the IMF was in a favourable position. In the US, inflation would be his top priority (sic). This would involve reducing federal expenditures as a proportion of GNP, a restrained monetary stance, and wage and price policies. After a $4-5 billion current account deficit this year, Miller foresaw a substantial surplus next. He would take forceful action to ensure a sound and stable dollar. Implementing the Administration's energy programme would be difficult, but they were trying to do this.

4. Matthoeffer (Germany) noted the better balance of current accounts between developed countries, but also the newly increased deficits of non-oil LDCs. Germany had made a contribution to helping LDCs by cancelling debts, increasing ODA, and disbursing all new aid as grants. Markets were well equipped to finance deficits, but he saw a risk of easy availability of finance delaying necessary adjustment. IMF conditional assistance should play a greater role. Also, it was important not to mix up monetary and development policies: monetary issues should be kept in the Interim Committee, and not be dealt with in the Development Committee. In Germany, expansion continued unabated, and the current account should be roughly in balance this year.

/The Chancellor

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5. The Chancellor of the Exchequer shared the general view that the world outlook in the immediate future was not good, but warned against being overwhelmed by gloom. The slowdown was not as severe as in 1974-75, and economic growth was still alive. To encourage and spread growth more widely, we must ensure conditions that favoured economic change and could improve supply. He endorsed warnings against protectionism, but al believed that the LDCs needed, in their own interests, to admit, encourage and reward the skills and capital that were anxious to help them. LDCs had much to gain from economic liberalism. In financing their deficits, he encouraged the LDCs to use the facilities of the Fund and Bank at an early stage. These institutions' resources should be adequate. But in the end, nothing could be accomplished if inflation were not overcome. This would take time.

6. Morinaga (Japan), Baffi (Italy), Andriessen (Netherlands), and Hoffmeyer (Denmark) also emphasised the prior need to reduce inflation. The last two said that although the relative rise in oil prices had to be accepted, it should not be allowed to be built into inflation; Andriessen thought incomes policy could help here. Turning to the financing of non-oil LDC's deficits, Andriessen said that even if ODA and private capital flows could be increased, the IMF would still have a crucial role to play. Baffi too wished the IMF and other multilateral institutions to provide more finance, but that alone would not suffice. The time was ripe, he said, for triangular schemes whereby OPEC finance could team with industrial countries' know-how to help LDCs.

7. Monory's (France) statement was mainly a rehearsal of statistics on the French economy. He too mentioned the need to restrain inflation and for measures in the energy field. Greater aid flows to LDCs were obviously needed, but a particular burden must rest on oil-producers. He called for an increased role for the multilateral development institutions; within the IMF, he specifically supported subsidising interest on the SFF. Geens (Belgium) also looked for a greater role for the IMF - both through its own lending and through "catalytic" action on private flows - but was also concerned that the Fund should be promoting policies conducive to growth and stability. Crosbie (Canada) made a similar point more strongly. The Fund must resist the temptation, he said, to ease up on conditionality if adjustment was not secured, we should all be worse off in the long run. Crosbie also said that the price mechanism must be allowed to work for energy conservation. He was determined to follow this policy in Canada, whatever the difficultie

8. Howard (Australia) thought inflation was being tackled too slowly. But energy price must be allowed to rise, with care being taken that they did not feed through to wages.

/He was

He was especially concerned at the growth of protectionism. This was certainly not conducive to a more efficient use of world resources.

9. Van Lennep (OECD) said he shared the general view of world prospects expounded by the Managing Director. The oil price rises must not be allowed to deflect us from reducing inflation and renewing growth, or from promoting free trade. He agreed that it would not be appropriate for oil importers as a group to try to offset the deflationary influences of the oil price rises; however, the desirable degree of restraint in each country was not necessarily the same as the shock received by that country, so that demand management policies had a role to play. For the moment, he was concerned that high-inflation countries might relax their policies too soon. These countries had been right to raise their interest rates. But he was also concerned that as inflation came under control, interest rates would not be lowered quickly enough. Van Lennep noted that the progress made in reducing oil imports varied greatly between countries. He concluded by suggesting that oil producers could contribute to stability by avoiding sudden price changes, and that they might try to help non-oil LDCs more.

10. Long (GATT) said the LDCs needed improved access to industrial countries' markets. The trade agreements already reached marked a substantial step and must be put into effect without delay, as the call for protectionism would probably grow. Ripert (UNCTAD) also said protectionism must be resisted. The Fund too could help LDCs in the current situation; whilst he accepted that conditionality should be applied without discrimination, he hoped the Fund would keep borrowers' circumstances in mind.

11. Vincent (Nigeria) made a statement on behalf of the Group of 24, setting out the package of measures which they are demanding. Concessional flows to LDCs should be increased: the 0.7 per cent target should be met, the multilateral development banks' capital should be increased, IDA 6 should be implemented, and there should be an "SDR-aid link". Ordinary SDR allocations should be increased. The seventh IMF quota increase should be implemented as soon as possible, and when it was in place, credit tranches should be temporarily expanded as an advance on the Eighth Quota

/Review.

Review. The criteria for setting quotas should be reviewed, as should Fund facilities. First credit tranche conditionality should apply up to 50 per cent of quota. A new medium-term facility was needed to finance externally caused deficits. IBRD should provide more program loans. Trade should be liberalised: at a minimum, industrialised countries should impose no further import controls.

12. Most LDC members explicitly supported the G-24 proposals. Leal (Spain) added a suggestion that the Fund should institute a swap arrangement equal to 50 per cent of quota: members drawing on the swap would, when it matured, either have to repay or else borrow from the expanded first credit tranche.

13. Ortiz (OPEC) said that the world needed an international monetary system that could withstand changes in the price of a single commodity. Meanwhile, it was nonsense to blame OPEC for harming LDCs; the main harm came from the policies of industrialised countries. OPEC had only taken successful measures to stabilise the world oil market. The outcome of the Tokyo Summit, and industrialised countries' action since then fell well short of what was required. The swing from glut to famine of oil was a result of importing countries not regulating their demand. A dialogue between OPEC and industrialised countries was needed, but it could take place only in the context of discussion of all the issues affecting LDCs. Ortiz and Abal-Khail (Saudi Arabia) both pointed to the size of OPEC aid flows in 1977 and said that oil producers could not provide the needed aid alone. Nabulsi (Jordan) made similar points, and also said that oil producers faced multiple losses: to help stabilise prices, they had increased production beyond what was technically or economically in their interests, adversely affecting their terms of trade; then negative real interest rates eroded the value of their foreign exchange reserves.

14. Rischbieter (Brazil), Patel (India), Reghaye (Morocco), and Diz (Argentina) also spoke, but added little new. Wardhana (Indonesia) provided something of a contrast to other LDC members, talking mainly about inflation. He said that the US and others had left action too long, and were now seeing the results in higher inflation. Germany and Japan, in contrast, were successful. The lesson was that gradualism on growth worked, gradualism in tackling inflation did not.

/15. Pandolfi

15. Pandolfi (Chairman) summed up on the lines of the Press Communiqué already sent to you by telegram.

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FRD
EESD

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United Kingdom Treasury and Supply Delegation
British Embassy Washington DC 20008

Telephone (202) 462-1340
Telex Domestic USA 89-2370/89-2384
Telex International 64224(WUI)/248308(RCA)/440015(ITT)

16/5

cc Mr Mountfield
Mr Mitchell
Mr Turnbull
Mr Burst (ODA)
Mr Bayne (FCO)
Mr Boyd (BONN)
myself (to keep)
yourselves (for file)
+ return to the Record for Mrs H-M o/r.
N.J.Ilett
9/v

Mrs. M.E. Hedley-Miller
H.M. Treasury
London, England

Your reference

Our reference

Date May 6, 1980

Dear Mary,

Interim Committee -
Hamburg, April 25, 1980

Your minute of 29th April recorded the essentials of the Interim Committee meeting. You will recall that a fair number of speakers had statements read into the record in the afternoon. I am now told by the Fund staff that these will not be available for another week, and so am reporting now the main points made by speakers in the meeting, as recorded in my notes. But even these will need checking against the record, according to the staff. They particularly mentioned that the interpreters had not been able to keep up with Takeshita's very fast delivery, and that on checking their transcripts of the interpreters against the original they had found important errors.

As you say, nobody said anything very unexpected about the world economic outlook. Consequently, in the attached report I have concentrated on Ministers' views on Fund policies.

Yours ever,
Lionel

Lionel D.D. Price

Enclosure

cc: Mr. R.H. Gilchrist, B/E

NOTE FOR RECORD

Interim Committee - Hamburg
April 25, 1980

Ministers' views on Fund and related policies

1. IMF lending

Four of the G-5 Ministers--The Chancellor of the Exchequer, Matthoefer (Germany), Takeshita (Japan) and Monory (France)--all said that they would be prepared to see the Fund lend larger amounts in relation to quotas. Some saw the increased lending taking place in the framework of existing facilities, with Takeshita seeing no need for any new facility; but Miller (United States) thought that a new facility would be needed in 1981, and Monory looked for a new oil facility and also wished the Fund to assist members with temporary difficulties such as over the cost of food imports. On the other hand, Nørgård (Denmark) was against any further increase in the rules governing the amounts lent vis-a-vis quotas--though he did look for a greater use of the SFF, and hoped that the Seventh Quota Increase would be implemented soon. Howard (Australia) did not express a clear view on the amounts that the Fund should be lending, but did stress that all members should be treated alike.

2. LDC Ministers made few remarks--at least in their oral statements--about the volume of the Fund lending, although of course, many implicitly supported an increase by advocating adoption of the Group of 24's proposals.

3. Al-Quraishi (Saudi Arabia) said that the World Bank, in cooperation with the Fund, should develop medium- and long-term programs to increase financial assistance to the poorest countries and to a very small group of middle-income developing countries. Several developed country Ministers touched on the

relationship between Fund and Bank lending (which had been discussed more extensively in the Development Committee the day before). Generally these Ministers saw benefits in cooperation between the Fund and the Bank, while wishing to keep their facilities distinct. Howard and Nørgård put the point more strongly, with Nørgård stressing that financing linked to development was not for the Fund and must be kept in the Bank. Developed country Ministers also wished to maintain Fund conditionality in roughly its present state, believing that the greater flexibility shown by the Fund since the adoption of the guidelines on conditionality a year ago, was broadly appropriate. Miller did see the Fund giving increased attention to the supply side, but Howard pointed out that structural adjustments could be successful only if associated with appropriate demand policies. Only Monory appeared to be calling for further adaption of Fund conditionality. The Fund should, he said, pay more attention to the medium- and long-term requirements of member countries, and should take into account the legitimate concerns of LDCs as expressed at the meeting. Al-Quraishi also believed that Fund conditionality should be flexible to prevailing conditions, especially when the member's difficulties are beyond its control.

IMF borrowing

4. It was widely recognized that the Fund's resources were adequate for the time being, but a number of Ministers thought that at some future date there would be a need to augment these resources by borrowing. Howard and Takeshita thought that the Fund should borrow directly from oil producers (Takeshita also looked to the Fund's resources being augmented by early action on the Eighth Quota Increase). The Chancellor, Miller and Monory looked for Fund borrowing from surplus countries generally. Al-Quraishi saw Fund borrowing coming

both from members and from the commercial market. The Fund's credit standing would enable it to borrow on attractive terms; however, he seemed to imply that Saudi Arabia would itself expect to receive a market-related return on any lending to the Fund.

Recycling

5. Some Ministers also made suggestions to facilitate recycling outside the Fund. Venkataraman (India) believed that industrialised countries could guarantee lending from OPEC countries to non-oil LDCs. Takeshita also hoped to see more direct lending to LDCs by oil producers, but made no mention of guarantees. He thought that international bank lending had a major role to play in recycling, as did the Chancellor--although he could foresee this role becoming harder in time. Galveas (Brazil) and Arriazu (Argentina) expressed concern about the restrictions which they thought were being placed on international bank lending. On the other hand, Matthoefer welcomed the more cautious behaviour seen recently in markets. The slowdown in bank lending should encourage deficit countries to go to the Fund.

Group of 24 proposals

6. Despite the unseemly argument at the beginning of the meeting when Essang (Nigeria) sought to have the G-24's proposals placed on the agenda, few Ministers took the opportunity afforded to them to discuss this topic in their oral remarks. However, Essang himself--as the new Chairman of the Group of 24--did argue forcibly point by point. The case for increasing LDCs Fund quotas was unassailable he said: developed countries had much better access to capital markets, and the inequity in the present quota allocation had been recognized by Brandt. A new SDR allocation would help

non-oil LDCs finance their deficits unconditionally. The main argument which had been put in the past against the SDR aid link had been that it would be inflationary; yet inflation had been a problem without the link so that that argument could no longer be used against it (sic). The case for a subsidy account was obvious. And the IMF had a lot of gold so some of this should be used to augment the Trust Fund. A case for increasing LDC quotas was also seen by Al-Quraishi, though mainly in terms of the scale of their need to borrow from the Fund, rather than as a way of increasing their voting power. Takeshita meanwhile stressed that the Eighth Quota Increase must be based on an objective criteria. The pleas for a new SDR allocation and for the link drew virtually no explicit support (i.e., beyond what was implicit in LDC Ministers standing behind the G-24 programme).

7. A continuation of the Trust Fund drew specific support from the three Ministers--Venkataraman, Essang and Emony (Zaire)--most likely to benefit. Essang and Emony wished the injection of new resources to come from sales of the Fund's gold; Venkataraman believed that the Trust Fund should be immediately augmented, but omitted to say whence the new resources should come. Emony also considered that membership of the Trust Fund should be widened. Jalal (Saudi Arabia) also said that he would support a new, enlarged Trust Fund, with appropriate beneficiaries. It should be financed from repayments from the existing Trust Fund, sales of Fund gold, and by Fund members.

Use of Fund gold

8. With the Substitution Account (see below) no longer a runner, there was little discussion of possible uses for the Fund's gold. The Chancellor thought that decisions on uses of the Fund's gold must be left aside for the time being, and that it would be unwise to take decisions peacemeal on gold which is an important resource for the international monetary system. Monory also spoke of

preserving the Fund's patrimony. The only support from a developed country for early sales of the Fund's gold came from MacEachen (Canada). He thought it ironic that it should be suggested that the Fund should continue to hold such an unstable asset; it should sell the gold and use the income thereby generated.

9. LDC Ministers were hardly more forthcoming, beyond the suggestions for use of gold to support the Trust Fund mentioned above. A number of LDC Ministers did mention the Jamaica agreement, claiming that this meant that the Fund's gold had to be used to benefit LDCs. But Jalal also thought it could be used to help finance a rise in the SDR interest rate. Venkataraman declared himself against any use of the Fund's gold, but would be prepared to go along with others in using it to solve balance of payments difficulties of LDCs. He was not prepared to see the gold used to finance an interest subsidy on the SFF available to all borrowers.

Substitution Account

10. Although a number of Ministers expressed support for the idea of a substitution account, and regretted that it would not be possible to take it further at this meeting, only Dini (Italy) and Takeshita seemed to advocate an early resumption of discussions. Takeshita said that we should not be influenced too much by a short-term recovery in the dollar. Recycling needed stable markets, and brave decisions were essential amongst all nations. Monory and MacEachen both expressed support for the concept of a substitution account, but said that not too much reliance must be put on the Fund's gold, and that participants should bear much of the risk. De Strycker (Belgium) also said he agreed with substitution, but said that there was a need to review the sharing of rights and obligations between participants and other holders /he appeared to have in mind that shares in the risks of the account would attach to holders

of the claims and not to the original depositors--a mechanism which was long ago decided to be impracticable/.

11. Qualified support for a substitution account was also offered by Jalal, Galveas, Emony and Venkataraman. The first three all tied any use of the Fund's gold for substitution to action on the G-24's proposals. Emony and Galveas thought that in any event not too much gold should be used, with Emony believing that participants should bear the bulk of the risk. Venkataraman continued to be opposed to any use of gold for substitution. The strongest doubts about substitution per se were expressed by Essang. He was worried about its impact on the international capital markets, believed it would lead to higher SDR interest rates, and also wanted to know what would happen when the gold was exhausted. Any use of gold was of course conditional on the G-24's proposals.

SDR and charges

12. In an attempt to salvage something from the meeting, the Managing Director made a bid to have the Committee endorse his proposals for reducing the number of currencies in the SDR valuation basket, and for ensuring that the SDR interest rate basket was completely consistent with the valuation basket. He said that these could be useful steps if rapidly augmented, and that he saw risks in a fragmented or gradualist response to his proposals. Although these proposals had already been discussed in the Fund Board (a need for the changes having been perceived during discussion of the substitution account), few Ministers seemed to have been briefed on the subjects. Vincent (Nigeria) made this point (with unnecessary vigor), but some other Ministers managed to respond. The Chancellor had already in the morning indicated that he thought the proposals should be studied further. Al-Quraishi, Dini and Takeshita supported the reduction of the valuation basket to five currencies, with Takeshita asking for immediate implementation. MacEachen argued that a nine-currency basket should be used for both valuation and interest rate. He, along with Dini and Al-Quraishi,

also wished to see SDR interest rate raised to the full weighted average of the component interest rates. However, Monory said that he would not give this high priority.

13. MacEachen recognised that raising the SDR interest rate would have implications for renumeration and charges. Fund charges should be structured more to promote adjustment. The only other references to Fund charges came from Al-Quraishi and Essang, who each favoured the adoption of the G-24 proposal of a subsidy account for the poorer developing countries.

Lionel D.D. Price
May 6, 1980

Hamburg
April 25, 1980

Press Communiqué of the Interim Committee of the Board of Governors on the International Monetary System

I. The Interim Committee of the Board of Governors of the International Monetary Fund held its fourteenth meeting in Hamburg, Germany, on April 25, 1980 under the chairmanship of Mr. Filippo Maria Pandolfi, Minister of the Treasury of Italy. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. G. D. Arsenis Director of Money, Finance and Development Division, UNCTAD; Mr. Alexandre Lamfalussy, Economic Adviser and Head of the Monetary and Economic Department, BIS: Mr. Pierre Languetin, Member of the Governing Board, Swiss National Bank; Mr. Emile van Lennep, Secretary-General, OECD; Mr. Olivier Long, Director General, GATT; Mr. Rene G. Ortiz, Secretary General, OPEC; Mr. Fançois-Xavier Ortoli, Vice-President, CEC; Mr. Jean Ripert, Under-Secretary-General for International, Economic and Social Affairs, UN; Mr. Ernest Stern, Vice President, Operational Staff, IBRD; Mr. Cesar E. A. Virata, Chairman, Development Committee.

II. The Committee discussed the world economic outlook and the policies appropriate in the current situation. Two aspects particularly concerned the Committee: worldwide inflation and the payments imbalances of the non-oil developing countries.

Expressing great concern at the dramatic and widespread rise in rates of inflation since its meeting in Belgrade, the Committee agreed that the top priority being given in many countries to the fight against inflation must not be relaxed.

The Committee recognized that short-term prospects for growth of the world economy, and particularly of economic activity in the industrial countries, are not good. Success in reducing inflation was considered a condition for better investment performance and resumption of satisfactory growth over the longer term.

It was recognized that efforts to contain inflation require an appropriate balance between monetary and fiscal policies. In that light the Committee stressed that more effective use of fiscal policy, with better control of government spending, is essential.

The Committee continued to attach great importance to avoiding secondary repercussions of the recent oil price increases on wages, other incomes, and prices of non-oil goods and services. The Committee noted the desirability of doing everything feasible to ensure that incomes grow at a rate which is consistent with anti-inflationary policies.

The Committee also emphasized the need to supplement fiscal and monetary policies with measures designed to improve supply conditions and promote higher levels of saving and investment. In this general context, the Committee recognized the pervasive impact of the energy situation on all aspects of economic performance and stressed the importance of measures to conserve energy and to develop new sources of energy.

With respect to the international payments situation, the Committee noted that shifts in current account balances among major groups of countries are proving even larger than was visualized at its previous meeting last October. According to the estimates of the IMF staff, the current account surplus of the oil exporting countries is now expected to reach $115 billion in 1980 and to remain very large in 1981, while the combined current account deficit of the non-oil developing countries is likely to approach $70 billion in 1980--compared with $55 billion in 1979--and to rise still further in 1981, and the deficit of the industrial countries on current account (excluding official transfers) will probably rise from $10 billion in 1979 to the range of $45-50 billion in 1980 before subsiding in 1981.

What the Committee found most disturbing about the payments imbalances now in prospect was the sharp increase in the current account deficit of the non-oil developing countries. It was feared that this adverse swing would generate external financial difficulties for many of these countries, and that a number of low-income countries in the group would face severe problems in maintaining an adequate flow of imports. To avert hardships for these latter countries, the Committee urged provision of substantially larger amounts of aid and concessional loans.

The Committee noted that a number of developing countries, and especially those whose own manufacturing industry is most advanced, have relatively good access to international financial markets, and may be expected to cope with the sharp rise in their import bills partly through expanded international borrowing. While recognizing the need for prudential supervision, the Committee expressed concern that such supervision should not impede recycling. The Committee was concerned, nevertheless, about the medium-term implications of such heavier borrowing. With the escalation of outstanding debt, amortization payments and interest costs--especially those incurred on fixed terms involving high rates of interest--will make sizable claims on debtors' export earnings and other available funds over the next few years. To minimize these burdens, the Committee urged that developing countries seek a judicious blend of adjustment and financing to meet the payments problems immediately ahead.

Recognizing that the ability of non-oil developing countries to achieve the desired objectives would depend importantly on their access to foreign markets, the Committee urged the industrial countries to keep their markets open to exports from developing countries. Avoidance of protectionist trading policies was considered of vital importance at a time of sluggish growth in world economic activity.

III. In view of the outlook for the world economy and, in particular, the prospect of large and widespread payments imbalances, the Committee agreed that the Fund should stand ready to play a growing role in the adjustment and financing of these imbalances. In this connection, the Committee endorsed the views set forth in the Managing Director's statement on the subject and agreed with him that any such financing by the Fund should be made available in conjunction with adjustment policies appropriate to the needs and problems of members in the present economic situation.

The Committee recognized that, in view of the availability of funds under the Supplementary Financing Facility and the expected increase in quotas under the Seventh General Review, the Fund is, under present circumstances, in a relatively liquid position. Nevertheless, in the light of the size and the distribution of payments imbalances, the necessity to phase adjustment over a reasonable period of time, and the time needed for the completion of any borrowing arrangements, the Committee encouraged the Managing Director to start discussions with potential lenders on the terms and conditions under which the Fund could borrow funds to increase its resources, if and when the need arises.

The Committee believed that, in addition to any action by the Fund, additional development assistance would need to be provided to the low income countries that are most severely affected by the present situation and, in this connection, it endorsed the view expressed by the Development Committee on the need for such assistance. The Committee requested the Managing Director and the Executive Board to start examining in depth the relevant recommendations of the Program of Immediate Action of the Group of 24, with a view towards a substantial discussion next September.

IV. The Committee expressed concern at the fact that, although the Resolution of the Board of Governors on the Seventh General Review of Quotas had been approved nearly one and a half years ago, the quota increases of SDR 19.6 billion approved under it had not yet come into effect. The implementation of these increases would enhance the ability of the Fund to serve the needs of its members in the difficult payments situation ahead. The Committee stressed again the importance of an early implementation of these increases and urged those members that had not yet consented to the increases in their quotas to do so as soon as possible, so that the increases could become effective in the course of 1980.

V. The Committee noted that the present gold sales program, which is nearing completion, has yielded a very large amount of resources for the benefit of the developing countries--about SDR 3.9 billion--the greater part of which was used for balance of payments assistance on concessionary terms to the low income developing countries. The Committee asked the Executive Board to study the future of the Trust Fund. This study should encompass the possibility of using a part of the Trust Fund repayments for ameliorating the conditions of loans to low income developing countries.

The Fund should also explore the possibility of obtaining other resources to subsidize its lending to low income developing countries.

VI. The Committee commended the Executive Board for the progress it had made in designing a plan for a Substitution Account along the lines requested by the Committee in its Communique issued in Belgrade. The Committee noted that the Board had reached, in Part II of its report, provisional agreement on a wide range of features of such an Account. The Communique also noted that some issues remained to be solved, including arrangements for the maintenance of financial balance in the Account. The Committee, after a discussion of these issues, expressed its intention to continue its work on this subject.

VII. The Committee noted with satisfaction the steps taken to widen the uses of SDRs and welcomed the decisions taken by the Executive Board under which SDRs can now also be used in swaps, forward operations, and in making donations. The Committee also welcomed the recent decisions under which an increased number of official institutions can hold and deal in SDRs.

The Committee noted that the Executive Board had conducted an examination of the SDR valuation and interest rate baskets with a view to simplifying and enhancing further the attractiveness of the SDR. The Committee endorsed these objectives and expressed the view that the interest and valuation baskets should be identical. The Committee asked the Executive Board to take the necessary action for the implementation of this change.

VIII. The Committee agreed to hold its next meeting in Washington, D.C. on Sunday, September 28, 1980. The Committee also agreed to hold a meeting in Libreville, Gabon, in the spring of 1981.

IX. The Committee expressed its warm appreciation to the Government of the Federal Republic of Germany and to the Free and Hanseatic City and the people of Hamburg for their hospitality and for the excellent arrangements provided for the meeting.

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IMF/IBRD ANNUAL MEETINGS

1. THE 1980 ANNUAL MEETING OF THE IMF AND WORLD BANK TOOK PLACE FROM SEPTEMBER 30 TO OCTOBER 3. SEPARATE REPORTS ARE BEING SENT ON THE MEETINGS OF THE IMF INTERIM COMMITTEE ON SEPTEMBER 28 AND OF THE DEVELOPMENT COMMITTEE MEETING ON SEPTEMBER 29, AND ON THE MAIN POINTS OF INTEREST IN SPEECHES IN THE PLENARY DEBATE IN THE ANNUALLEETING. PERHAPS I COULD NOW OFFER SOME MORE GENERAL IMPRESSIONS.

2. THE ANNUAL MEETING WAS OVERHUNG FROM THE START BY THE CONTENTIOUS ISSUE WHETHER THE PLO SHOULD HAVE BEEN ADMITTED AS OBSERVERS. BEFORE THE MEETING THERE WAS REASON TO FEAR THAT THIS ISSUE MIGHT BE RAISED ON THE FLOOR AND DISRUPT THE WHOLE MEETING. THAT IT DID NOT DO SO WAS DUE TO THE DETERMINATION OF CHAIRMAN JAMAL (TANZANIA) THAT THE MAIN MEETING SHOULD PROCEED SMOOTHLY, AND TO HIS PATIENCE IN BRINGING THE AMERICANS AND ARABS TOGETHER. THE AMERICANS' PREVIOUS SUCCESS IN SECURING APPROVAL OF THE RESOLUTION SUBMITTED TO GOVERNORS FOR POSTAL VOTE IN AUGUST TURNED OUT TO BE A PYRRHIC VICTORY. IT WAS ONLY AT MUCH TOO LATE A STAGE THAT THEY WOKE UP TO THE NEED TO TALK SERIOUSLY TO THE ARAB COUNTRIES ABOUT A COMPROMISE WHICH WOULD AVERT AN OPEN CLASH AT THIS MEETING. IN THIS RESPECT, CHAIRMAN JAMAL, IN SPITE OF HIS STRONG PERSONAL SUPPORT FOR THE PLO, SHOWED HIMSELF MORE PERCEPTIVE THAT THE AMERICANS HAD BEEN. BUT THE SOLUTION NOW ADOPTED (MY TELNO 299) HAS OF COURSE ONLY BOUGHT A LITTLE MORE TIME, AND NOT RESOLVED THE BASIC ISSUE WHETHER THE PLO SHOULD BE INVITED IN FUTURE.

3. LEAVING THAT ASIDE, THE MAIN THEME OF THE REPORTS BEFORE THE ANNUAL MEETING WAS THE IMPACT OF HIGH OIL PRICES AND PERSISTENT LARGE SURPLUSES IN THE OIL-PRODUCING COUNTRIES ON THE ECONOMIC PROSPECTS OF OTHER COUNTRIES. THIS PICTURE WAS MADE WORSE BY THE CONTINUING HIGH INFLATION WORLD-WIDE, AND LOW RATES OF ECONOMIC GROWTH, AND WAS PARTICULARLY SOMBRE FOR THE POOREST DEVELOPING COUNTRIES.

4. OTHER SIGNIGICANT ASPECTS OF THE MEETING WERE THE REPRESENTATION OF CHINA BY THE PRC FOR THE FIRST TIME, AND THE IMPENDING RETIREMENT OF MCNAMARA. OF THESE, THE FIRST IS THE MORE SIGNIFICANT. SO FAR IT HAS LARGELY BEEN DISCUSSED IN TERMS OF THE DEMANDS WHICH CHINA MIGHT PLACE DURING THE NEXT THREE YEARS ON THE SIXTH IDA REPLENISHMENT. NEITHER INDUSTRIALISED NOR DEVELOPING COUNTRIES

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HAVE YET FACED UP TO THE LONGER-TERM IMPLICATIONS OF ADDING THE DEVELOPMENT NEEDS OF A BILLION PEOPLE TO THE DEMANDS FALLING ON THE WORLD BANK GROUP. THIS IS SOMETHING WHICH WILL DOUBTLESS EMERGE MORE CLEARLY AFTER THE PRC TAKE THEIR PLACE VERY SOON ON THE EXECUTIVE BOARDS OF BOTH INSTITUTIONS AND IN THE INTERIM AND DEVELOPMENT COMMITTEES.

5. MCNAMARA DELIVERED A VALEDICTORY ADDRESS IN HIS USUAL STYLE (SEE MY TELNO 296), ENDING WITH BERNARD SHAW: QUOTE YOU SEE THINGS, AND SAY WHY? BUT I DREAM THINGS THAT NEVER WERE, AND I SAY WHY NOT? UNQUOTE. HE RECEIVED A STANDING OVATION. MCNAMARA HAS MADE AN IMMENSE CONTRIBUTION TO THE WORLD BANK GROUP, BUILDING IT UP AS A MAJOR INSTITUTION AND CONCENTRATING ITS EFFORTS ON THE NEEDS OF THE POOREST. IT WILL FALL TO HIS SUCCESSOR TO FIND THE FINANCIAL RESOURCES NEEDED TO MEET ALL THE ASPIRATIONS WHICH MCNAMARA HAS EVOKED. THIS WILL BE A FORMIDABLE TASK.

6. THE DISCUSSION ON THE IMF SIDE WAS MORE OF A STOCKTAKING OF PROGRESS SINCE THE LAST INTERIM COMMITTEE IN HAMBURG. THERE WAS GENERAL ENDORSEMENT OF THE PROPOSAL THAT THE FUND SHOULD BE PREPARED TO LEND MORE IN RELATION TO COUNTRY QUOTAS. THERE WAS ALSO SOME EVIDENCE OF GREATER MUTUAL UNDERSTANDING, ON THE PART OF BOTH DEVELOPED AND DEVELOPING COUNTRIES, THAT FINANCING AND ADJUSTMENT SHOULD GO TOGETHER, BUT THAT CONDITIONALITY SHOULD BE RELATED TO THE PARTICULAR CIRCUMSTANCES OF THE COUNTRY CONCERNED. THIS UNDERSTANDING (ALSO EVIDENT AT THE COMMONWEALTH FINANCE MINISTERS' MEETING AT BERMUDA) MAY PERHAPS HAVE REFLECTED AWARENESS OF THE DAUNTING ECONOMIC PROSPECT FACING BOTH DEVELOPED AND DEVELOPING COUNTRIES, ESPECIALLY THE POOREST. MANY DEVELOPING COUNTRIES STILL HOWEVER REHEARSED THE MAIN CLAIMS OF THE G24, INCLUDING THEIR DESIRE TO HAVE A BIGGER SAY IN THE DECISIONS OF THE TWO INSTITUTIONS, AND DEMANDS FOR BIGGER SDR ALLOCATIONS AND AN SDR-AID LINK.

7. THERE WAS LITTLE REACTION TO THE FAILURE OF THE UN SPECIAL SESSION: BUT A DESIRE WAS EXPRESSED BY THE DEVELOPMENT COMMITTEE TO PLAY AN ACTIVE ROLE IN THE GLOBAL NEGOTIATIONS ONCE THEY BEGIN.

8. IN THE FUND, AS IN THE WORLD BANK, THE PRINCIPAL UNFINISHED BUSINESS WAS HOW TO FINANCE THE INCREASED ASSISTANCE NOW CONTEMPLATED BECAUSE OF THE COOLNESS BETWEEN THE ARAB COUNTRIES AND BOTH INSTITUTIONS PROVOKED BY THE PLO DISPUTE, NO PROGRESS COULD BE MADE ON DIRECT BORROWING FROM SURPLUS OIL PRODUCERS. IT WAS ALSO DISAPPOINTING THAT US CONGRESS FAILED THIS WEEK TO APPROVE APPROPRIATIONS FOR AN INCREASE IN THE US QUOTA. THIS MADE IT IMPOSSIBLE TO REPORT A SUCCESSFUL IMPLEMENTATION OF THE SEVENTH REVIEW OF QUOTAS, WHICH REMAIN THE PRINCIPAL SOURCE OF FUND FINANCE.

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9. FOR THE UNITED KINGDOM, THE CHANCELLOR'S SPEECH CAME OVER WELL, AND ATTRACTED FAVOURABLE COMMENT BOTH FOR ITS LUCIDITY AND FOR ITS CANDOUR IN BLENDING COMPASSION WITH FINANCIAL REALISM. THE CHANCELLOR WAS ALSO ABLE TO USE HIS VISIT TO WASHINGTON TO PUT ACROSS THE GOVERNMENT'S ECONOMIC MESSAGE PERSUASIVELY IN INFORMAL DISCUSSIONS WITH GROUPS OF LEADING US ECONOMISTS, BUSINESSMEN AND BANKERS ARRANGED BY THE AMBASSADOR AND MYSELF.

10. TO SUMMARISE, WHILE WE APPROACHED THE ANNUAL MEETINGS WITH SOME APPREHENSION THEY HAVE BEEN CONCLUDED WITH SOME RELIEF AND EVEN A MODEST DEGREE OF SATISFACTION. THE MAJOR ISSUES, HOWEVER, REMAIN. FIRST, HOW CAN THE NEEDS IDENTIFIED IN BOTH FUND AND BANK BE MATCHED BY APPROPRIATE AND ADEQUATE FINANCIAL RESOURCES? SECOND, THE PLO ISSUE: CAN AN ACCEPTABLE FORMULA BE FOUND IN THE COMING MONTHS WHICH WILL NOT LEAD TO DIMINUTION OF SUPPORT FROM THE ARABS ON THE ONE SIDE OR THE AMERICANS ON THE OTHER? THIRD, WHAT WILL BE THE LONG-TERM IMPLICATIONS OF SEATING THE PRC? THESE INTERLINKED ISSUES WILL PROVIDE A HEAVY AND COMPLEX SCHEDULE OF WORK FOR BOTH INSTITUTIONS BEFORE THE NEXT MEETING OF THE INTERIM AND DEVELOPMENT COMMITTEES IN LIBREVILLE AT THE END OF MAY 1981.

11. FCO PLEASE ADVANCE TO HALLIGAN (TREASURY)

FCO PASS SAVING TOKYO OTTAWA NEW DELHI CANBERRA WELLINGTON PEKING MEXICO CITY JEDDA KUWAIT UKDEL OECD UKMIS GENEVA BONN BRUSSELS COPENHAGEN DUBLIN LUXEMBOURG PARIS ROME THE HAGUE UKREP BRUSSELS.

(ADVANCED AS REQUESTED)

ANSON (REPEATED AS REQUESTED)

MONETARY
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Mr Atkinson

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FROM UKDEL IMF/IBRD WASHINGTON

TO ROUTINE FCO TELEGRAM NO. SAVING 244 OF MAY 28, 1981, INFO.SAVING UKREP BRUSSELS, UKDEL OECD AND UKMIS GENEVA

IMF: INTERIM COMMITTEE

1. The Interim Committee met in Libreville, Gabon on May 21, 1981. The Chancellor of the Exchequer, accompanied by the Governor of the Bank of England and Sir Kenneth Couzens, represented the United Kingdom.

2. As recorded elsewhere, the start of the meeting was delayed for over one and a half hours while attempts were made to elect a Chairman. The issue was finally resolved when the Chancellor asked that his name be withdrawn from consideration. MacEachen (Canada) then took the chair, having received the support of no industrialised country.

World Econonic Outlook

3. The Managing Director opened discussion on the world economic outlook, speaking to ICMS/doc/81/5. The outlook was grim, though there were certain encouraging aspects: private market had done well in recycling; the major industrialised countries were bringing their monetary aggregates under better control; oil consumption per unit of output had been substantially cut; and wage increases were more restrained. In the discussion that followed, speakers from industrialised countries broadly emphasised these encouraging aspects, but other speakers stressed the difficult and apparently intractable problems facing developing countries. McNamar (United States) agreed with the Managing Director that inflation was the common problem and that there would be slow growth this year. But he was not as pessimistic on longer term prospects, believing that growth would recover and inflation would fall. That said, there was no sense in debating short-term economic forecasts, which were always unreliable. He described US economic policies.

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The US was voluntarily making the types of adjustments and reform which the Fund requires of others. Inflation would be reduced, and this would lead to lower interest rates. It was important that LDCs should maintain an environment conducive to non-inflationary growth. If they did not, no amount of effort from the Fund could overcome their problems. The Fund could make a critical contribution to the world economy as a financial and monetary institution. If this role continued, the United States would maintain its support of the Fund; but continued adherence to conditionality was a precondition for continued support and participation of the United States in the IMF.

4. Schulmann (Germany) said that inflationary expectations were deeply embedded in many countries. With many industrialised countries experiencing both inflation and unemployment, there was a structural problem which required a structural solution. He welcomed the Fund's concentration on structural policies. Noting that the industrialised countries had responded better to the second oil shock than to the first, he added that recycling had been aided by the fact that a large proportion of the deficits had fallen on countries like his own which could best bear them. Continued vigilance would be needed in the face of strong protectionist pressures, and the increasing tendency to concentrate on bilateral trade flows must be stopped. The Fund's biggest achievement in the 1970s had been the avoidance of beggar-my-neighbour policies, and Germany would not solve its problems at the expense of its partners.

5. After delivering the agreed statement on behalf of the European communities (II/187/81), the Chancellor spoke on behalf of the United Kingdom. It must be recognized that high interest rates were inevitable as long as there was fast inflation. However, industrialised countries should seek to establish an appropriate balance between fiscal and monetary policies. He felt entitled to draw attention to the last UK budget which ensured there would be fiscal discipline alongside monetary discipline. If industrialised countries established an appropriate monetary and fiscal balance, then others must help by avoiding further abrupt

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ges in oil prices, otherwise current account deficits would never be brought down to a bearable level. Oil price increases bore particularly heavily on non-oil developing countries, they led to reduced ODA and higher interest rates, and they promoted protectionism. The extra cost of the oil itself was the hardest burden. It was noteworthy that these countries' non-oil trade had moved into surplus.

6. Camdessus (France) asked for his statement to be inserted directly into the record and it will not be available to us for sometime. In a brief oral summary, he said that the recession was being aggrevated by high interest rates. It was vital for LDCs that industrialised countries should provide markets for their exports and ODA. He supported the role of MFIs in providing assistance, and the direction--not just the quantity--of such assistance was important. Aid should be concentrated on the poorer countries, especially those in Africa.

7. Mayekawa (Japan) spoke of the need to sustain efforts to reduce price expectations as the basis for growth and employment, to break the wage-price spiral, and to raise productivity by reducing fiscal demands. Both the recent high level and fluctuations of interest rates and also the movement in exchange rates represented efforts of national authorities to reduce inflation, and they would have to be accepted; but their effect, including on the debt servicing of non-oil LDCs, could not be ignored, and he hoped that major countries would lower their interest rates as soon as was possible. Eight years of floating exchange rates had shown that there was a tendency to large overshooting. This had induced the authorities of major countries to cooperate to reduce such fluctuations, and the need for such cooperation was as great now as at any time in the past.

8. With a number of other speakers inserting their remarks directly into the record, Seidel (Austria) was the only other speaker on this topic from a developed country. He said that too much weight had been put on the volume of money, with insufficient regard being paid to the price of money. As a result, some low inflation countries have been forced to hold interest rates higher than should

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have been necessary. Van Lennep (OECD) saw this as a difficult moment but nevertheless enumerated a number of positive factors including a slow down in real wage growth, the sustaining of investment , and a major reduction in the pattern of world energy consumption. He foresaw some recovery in output, though unemployment was still likely to rise next year. It was necessary to persevere with restrictive monetary and fiscal policies, but these must be backed up with measures to improve economic performance, including restraint of public expenditure. We all shared a common interest in the reduction of inflation in the United States, where fiscal measures were needed to lower interest rates. Trade restraint would only make matters worse and determined efforts would be necessary to ensure that sectors currently in difficulty (e.g., steel) were returned to normal market forces as the recession ended.

(ICMS/doc/81/8)

9. Virata (Philippines) presented the communique of the G-24 Ministers/, who had met the previous day. He added that there some rays of light in industrialised countries, but the non-oil developing countries faced major tasks of adjustment. He emphasised that adjustment must be undertaken by all, from the largest industrialised country to the poorest LDC. Kostic (Yugoslavia) also believed that industrialised countries would have to make changes to bring their industrial structure in line with changes in comparative advantage. Any resort to protectionism would be a serious blow to LDCs. Not only LDCs, but also industrialised countries in difficulties, should turn to the Fund for assistance.

10. Galveas (Brazil) and Diaz-Bruzual (Venezuela) pointed to the double burden of high interest rates on LDCs, both in hindering capital flows and in increasing their cost. Diaz added that industrialised countries should not unduly restrict credit in their financial systems, and they should increase ODA. In slight contrast, Alonso (Argentina) said that industrialised countries must continue with their adjustment policies. But there must be no resurgence of protectionsim; trade in industrial and argicultural products must be liberalised, the latter being essentially important for LDCs.

11. [illegible]ng (China), Venkataraman (India) and Ndegwa (Kenya) were the most gloomy. Venkataraman said that the positive signs mentioned by earlier speakers were only temporary and the medium-term prospect was worse than it had been a year ago. There was a worrying increase in protectionism, and this hurt industrialised countries too. LDCs now also faced high interest rates, and he saw a strong case for interest rate disarmament. He and Ndegwa called for a substantial increase in ODA. In Wang's view, the necessary structural adjustment in the world would come about mainly from countries' own efforts, but there was also a need for international cooperation. LDCs could not shoulder the burden alone, but needed access to new markets and to technology. Growth in LDCs would benefit industrialised countries, and the latter should not cut their ODA or contributions to MFIs.

12. Jalal (Saudi Arabia) said LDCs could benefit from open markets, lower inflation, greater technology transfer, and access to conditional and unconditional resources in the IMF. They also needed increased ODA. He and Al-Najafi (Iraq) spoke at some length about the particular problems of oil producers, and in particular of the need for more gradual and better planned development in those countries. Al-Najafi spoke of a need to guard against any relaxation of energy conservation efforts, but also called for action to remedy the present soft state of the oil market. LDCs could not be expected to take too much of the adjustment burden, as they took only a small portion of global oil production. Acts of expropriation in industrialised countries were not conducive to recycling, he said.

<u>Fund policies</u>

13. Discussion on Fund policies was patchy. Many positions had been made known at the Ministerial lunch where the press communique was drafted, and many speakers offered only summary remarks at the afternoon session. McNamar made no statement on this part of the agenda.

14. (a) <u>Enlarged access and Fund financing</u>

Mayekawa said that recycling had so far gone smoothly, this success being largely contributable to private markets. The Fund's role was a supplementary one.

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The enlarg access policy was appropriate, but the basic character of the Fund must not be changed. Balance of payments adjustment was essential, and enlarged access would have to be kept in line with the size and duration of the payments imbalances. Private market borrowing by the Fund would be undesirable; instead the Eighth Quota Review should be accelerated to ensure it was effective by end 1983. Quota shares should be adjusted to reflect the relative position of each economy. Camdessus also referred briefly to the need to preserve the specific character of the Fund, and to accelerate the Eighth Quota Review.

15. On market borrowing by the Fund and on quotas, the Chancellor associated himself with the view in his earlier statement on behalf of the European communities. Countries in difficulties should be ready and willing to use Fund resources. It was generally recognized that conditionality was essential, while the burden of adjustment could be mitigated by early access to the Fund.

16. Schulmann said that the Fund had responded outstandingly to current world needs. But it must ensure that its responsibilities and functions were not impaired. The monetary character of the Fund must be preserved. Conditionality must be maintained therefore irrespective of how the Fund was financed. He saw no room for further enlargement of access to the Fund, as the necessary resources did not exist. For the time being he saw no need to borrow on private markets. The Fund must not become a super Eurobank.

17. Andreatta (Italy) saw Fund borrowing as an exceptional temporary device, and the Eighth Quota Review should proceed as planned. There was no clear need for the Fund to go to the market, but management should be ready to do so in case it later proved necessary. Conditionality must be maintained. Seidel called for the broadest possible participation in lending to the Fund, this participation being related to individual countries' surpluses. But borrowing by the Fund was expensive, and quotas must play the central role. A substantial increase in quotas was necessary and urgent. There should be a two-part quota increase, if an equi-proportional increase could be made effective more quickly. Kostic agreed that

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borrowing should be temporary, and a quota increase was highly desirable.

18. Venkataraman and Alonso also favoured an equi-proportional quota increase to accelerate the Eighth Quota Review. Alonso and Galveas favoured borrowing by the Fund on private markets at least on an experimental basis. Alonso, Diaz-Bruzual and others requested the Executive Board to increase access to the Fund's conditional resources to 600 percent of quota over three years, as had been the case before Seventh Quota increase was implemented. Jalal, having said that Saudi Arabia was happy to be able to contribute to the enlarged access resources, stressed that the Fund must follow sound financial policies to maintain its ability to borrow.

(b) SDR matters

19. Mayekawa and other speakers welcomed the changes that had been made to increase the attractiveness of the SDR. On the question of an SDR allocation, Mayekawa believed that the best solution might be to have no allocation. There was currently an abundant supply of liquidity. He suggested that new consideration should be given to a substitution account, though not necessarily the scheme discussed before last year's Hamburg meeting. The Chancellor said that the UK was on the side of those who questioned the wisdom of a potentially inflationary SDR allocation in the present state of world liquidity. There was a need to rethink policies on the SDR if it was ever to play a major role. The SDR had been designed for a fixed rate world. The SDR's future would depend on its attractiveness. Reserve currency countries had a responsibility to control inflation and to maintain their value. The real value of the SDR would depend on inflationary expectations being held down in the major countries. Schulmann asked the Executive Board to study further the question of SDR allocations, noting that any allocation would have to be in line with the provisions of the Articles. In particular an allocation would have to be in proportion to quotas, and conditional on a proven need for liquidity.

20. Camdessus reserved his position on an SDR allocation. He agreed that there

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was st lus global liquidity, though this was badly distributed. Three-quart any SDR allocation would go to countries not needing increased reserves, so possibilities for a distribution more favourable to those in need should be considered. Andreatta's view was that a case had not been made for an SDR allocation, but he would not oppose a modest one. He too saw a need to adapt the SDR to changed circumtsnces. Drabble (Canada) said that an SDR allocation was called for. But there was a need for caution about the amount of liquidity that was created, and an allocation must not become in fact or appearance an engine of inflation. He would therefore favour a low figure, and a decision for only a short period. Nordal/(Iceland) supported a moderate SDR allocation sufficient to maintain the share of the SDR in world reserves. The agreed period should be less than five years. Seidel could also agree to an SDR allocation; a modest amount would not be inflationary. Ways of distributing SDRs more in accordance with the distribution of imbalances should be considered. Possibly newly created SDRs could be used conditionally through Fund lending.

21. Kostic said that the Yugoslav and Romanian authorities fully supported the view of the Group of Twenty-four, i.e., that there should be an annual allocation of at least SDR 12 billion. But on behalf of the whole constituency (including the Netherlands) Kostic said that the SDR allocation must be based on the criterion of global liquidity needs, taking into account the objective of making the SDR a principal reserve asset. The constituency deplored the fact that there was no agreement, and hoped this could be reached before the Annual Meetings.

22. Abdul Aziz (Malaysia) believed there should be an SDR allocation to provide reserves to countries currently having to borrow. He too was concerned about inflation, but did not believe an allocation would make a significant difference to this. Wang, Diaz-Bruzual and Galveas also supported a "substantial" allocation of SDRs. Alonso and Ndegwa supported the particular figure of SDR 12 billion per annum with Venkataraman asking for SDR 12-15 billion per annum. Abdul Aziz, Ndegwa, Venkataraman and Diaz-Bruzual also said they saw a case for changing the present distribution of SDR allocations and favoured a link.

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[illegible]) Food Facility

Speakers from industrialised countries welcomed the Board's recent agreement to extend the CFF to cover food import costs, though Schulmann said that it was no secret the German authorities had had deep reservations about it. He continued to believe that food financing was the responsibility of other institutions and not compatible with the character of the Fund. The recently agreed compromise would not be extendable. Drabble said that the food facility must not be a substitute for improvement of domestic food supplies.

24. Many speakers from developing countries, far from showing gratitude, said they regarded the recent agreement as quite inadequate. Diaz-Bruzual said that the expected use of the new facility was very small compared with the size of the earlier oil facilities. The contrast led him to think that the Fund was more concerned with fuel for machines than fuel for the human body. Ndegwa had been looking for a larger food facility, envisaging financing from donations and sale of the Fund's gold. Wang and Alonso called for the quota limits on drawings to be increased, and Venkataraman specifically asked for a separate food facility with quota limits of 100/100/150. Only Abdul Aziz struct a different note, welcoming the fact that the assistance for cereal imports was to be integrated within the CFF.

25. (d) SFF Subsidy Account

The Subsidy Account for interest payments under the SFF was widely welcomed. Kostic announced that the Netherlands had already transferred Fl 12.5 million to the account. Languetin (Swiss National Bank) announced that Switzerland would be contributing SDR 0.4 million, and Lemboumba announced a contribution from Gabon. Andreatta (speaking before the resignation of the Italian Government) said he was making a proposal to Parliament to contribute to the Subsidy Account. Drabble hoped that Canada would be able to contribute, and Messner said that Australia had the matter under consideration.

26. Venkataraman reminded us that India was unhappy that the Subsidy Account had been largely financed from Trust Fund repayments. He asked the

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Managing Director and the Executive Board to give thought to similar subsidy arrangements for enlarged access resources.

27. (e) Other matters

Ndegwa asked that basic votes be raised in line with quota increases. Wang called for a general change in the voting system of the Fund.

28. Abdul Aziz pointed to the anomaly that the rate of remuneration differs from the SDR interest rate. SDRs and reserves positions in the Fund were similar reserve assets, and should bear the same yield. He called on the Executive Board to study and resolve this anomaly.

29. Drabble made a statement on behalf of one of his "smaller Caribbean constituents"--clearly Grenada--which wanted the EFF to be reviewed, and its repayment period to be extended to 15 years. The same country attached importance to the Fund being apolitical, and said that the Fund must seek technical expertise from all appropriate sources.

Press Communique

30. The press communique was sent to you as Libreville telno 59 of May 22.

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TELEGRAM NUMBER 187 OF 10 SEPTEMBER
INFO SAVING EC POSTS, OTTAWA, TOKYO, JEDDA, RIYADH, KUWAIT, MEXICO CITY, NEW DELHI, UKDEL OECD, UKMIS NEW YORK, UKMIS GENEVA, CANBERRA, WELLINGTON, TEL AVIV, PRETORIA, CG TORONTO.

IMF/IBRD 1982 ANNUAL MEETINGS.

THE 1982 ANNUAL MEETINGS OF THE IMF AND THE WORLD BANK WERE HELD FROM SEPTEMBER 6 TO 9 IN TORONTO. THEY WERE PRECEDED BY MEETINGS OF THE IMF INTERIM COMMITTEE AND THE IMF/IBRD DEVELOPMENT COMMITTEE, ON WHICH SEPARATE REPORTS HAVE BEEN SENT SAVING.

2. THE MEETINGS TOOK PLACE AGAINST A BACKGROUND OF WIDESPREAD ANXIETY ABOUT THE GENERAL ECONOMIC OUTLOOK. ALTHOUGH PROGRESS HAD BEEN MADE IN REDUCING INFLATION IN SOME MAJOR INDUSTRIAL COUNTRIES, UNEMPLOYMENT WAS HISTORICALLY HIGH AND THERE SEEMED LITTLE SIGN OF EARLY RECOVERY. IN THE DEVELOPING COUNTRIES TOO, GROWTH RATES HAD GENERALLY DECLINED, AND ALTHOUGH THE RECENT FALL IN INTEREST RATES MIGHT OFFER SOME PROSPECT OF RELIEF, THE DEBT BURDEN IN SOME COUNTRIES HAD REACHED EXCESSIVELY HIGH LEVELS. THESE CONCERNS WERE BROUGHT INTO SHARP FOCUS BY THE FINANCIAL CRISIS IN MEXICO, AND THE GROWING LIQUIDITY PROBLEMS ELSEWHERE IN SOUTH AMERICA AND EASTERN EUROPE, WHICH WERE SEEN AS SEVERELY TESTING THE RESILIENCE OF THE WORLD FINANCIAL SYSTEM.

3. THE SPEECHES IN THE PLENARY SESSION, AND THE COMMUNIQUES OF THE INTERIM AND DEVELOPMENT COMMITTEES, ARE BEING SENT BY BAG TO LONDON. THE MANAGING DIRECTOR OF THE FUND STRESSED THAT UNEMPLOYMENT WAS A DEEP-ROOTED PROBLEM FOR WHICH THERE WERE NO QUOTE QUICK FIXES UNQUOTE. DESPITE CURRENT PROBLEMS, THE ANTI-INFLATIONARY POLICY STANCE REMAINED AS VALID AS EVER. IT WAS STILL NECESSARY TO ACHIEVE A BETTER AND MORE UNIFORM PRICE PERFORMANCE AND TO TACKLE STRUCTURAL RIGIDITIES. FISCAL POLICY, IN THE UNITED STATES AND ELSEWHERE, SHOULD GIVE MORE EFFECTIVE SUPPORT TO MONETARY POLICY. HE MADE STRONG PLEAS FOR THE PURSUIT OF LIBERAL TRADE POLICIES AND FOR THE MAINTENANCE OF ADEQUATE FLOWS OF CONCESSIONAL AID. COMPREHENSIVE ADJUSTMENT EFFORTS WERE NEEDED IN BOTH INDUSTRIAL AND DEVELOPING COUNTRIES. IF THE FUND WAS TO PLAY AN ADEQUATE PART IN ASSISTING AND ENCOURAGING THESE EFFORTS IT URGENTLY NEEDED A SUBSTANTIAL INCREASE IN QUOTAS. THE FUND ALSO NEEDED TO STEP UP ITS SURVEILLANCE ACTIVITY IN AN EFFECTIVE AND EVEN-HANDED WAY.

4. THE PRESIDENT OF THE WORLD BANK COVERED MUCH OF THE SAME GROUND IN DESCRIBING THE ECONOMIC SITUATION. HE STRESSED THAT SUSTAINED GROWTH IN THE DEVELOPING COUNTRIES DEPENDED ON SOUND DOMESTIC POLICIES AS WELL AS ON GROWTH IN THE INDUSTRIAL WORLD AND ON ADEQUATE CAPITAL FLOWS. THERE WAS A COMPLEMENTARITY BETWEEN THE

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TWIN OBJECTIVES OF EFFICIENT ECONOMIC GROWTH AND THE ALLEVIATION OF POVERTY IN DEVELOPING COUNTRIES. HE POINTED TO THE ACTION TAKEN IN THE PAST YEAR TO STRENGTHEN THE FINANCIAL POSITION OF THE IBRD AND ENCOURAGE CO-FINANCING, AND TO MOBILISE COMMERCIAL RESOURCES THROUGH THE IFC. HIS MAIN EMPHASIS HOWEVER WAS ON IDA. DRAWING ON THE RECENT STUDY OF IDA'S PERFORMANCE SINCE ITS INCEPTION, HE NOTED IDA'S IMPORTANT CONTRIBUTION TO DEVELOPMENT THROUGH PROJECTS SHOWING A HIGH AVERAGE ECONOMIC RATE OF RETURN. HE DEPLORED THE CUTBACK IN IDA FUNDING DUE TO THE FAILURE OF THE UNITED STATES TO COMPLETE ITS CONTRIBUTION TO THE CURRENT REPLENISHMENT DURING THE PRESCRIBED PERIOD, AND WELCOMED THE DECISION BY MANY OTHER COUNTRIES TO RELEASE THEIR CONTRIBUTIONS DESPITE THE US DELAYS.

5. WHILE THE SPEECHES OF INDIVIDUAL GOVERNORS REVEALED CONSIDERABLE DIFFERENCES OF EMPHASIS, THERE WAS WIDE AGREEMENT--AS LAST YEAR-- BOTH ON THE NEED FOR ADJUSTMENT AND ON THE KEY ROLE TO BE PLAYED BY THE FUND AND BANK. GOVERNORS FROM INDUSTRIAL COUNTRIES GENERALLY SUPPORTED THE ANALYSIS OF THE MANAGING DIRECTOR, ALTHOUGH WITH A GREATER TONE OF ANXIETY COMPARED WITH PAST MEETINGS. AN EXAMPLE WAS LAHNSTEIN (GERMANY), WHO REFERRED TO THE CRITICAL CIRCUMSTANCES SURROUNDING THE MEETING: ALL OVER THE WORLD A CONTINUED ECONOMIC STAGNATION WAS SEVERELY TESTING THE PATIENCE OF CITIZENS AND POLICY-MAKERS, AND ADVOCATES OF IMPATIENCE WERE GETTING THE UPPER HAND IN MANY COUNTRIES. HE NEVERTHELESS FELT THAT THE NETWORK OF INTERNATIONAL COOPERATION HAD HELD UP WELL UNDER THE CONSIDERABLE STRAIN--A JUDGMENT GENERALLY ECHOED BY OTHER G10 GOVERNORS. DEVELOPING COUNTRIES EXPRESSED SERIOUS CONCERN AT THE CONTINUED STAGNATION IN INDUSTRIAL COUNTRIES, PARTICULARLY IN ITS EFFECT ON COMMODITY PRICES AND ITS ENCOURAGEMENT OF PROTECTIONIST TENDENCIES. WHILE ACCEPTING THE NEED FOR ADJUSTMENT, THEY QUESTIONED WHETHER THE SYSTEM COULD RIGHT ITSELF WITHOUT FURTHER SERIOUS COST TO THEIR ECONOMIES. SOME FELT THAT IF THE RECOVERY DID NOT MATERIALISE SOON, THE TASK OF ADJUSTMENT WOULD BECOME DECIDEDLY MORE DIFFICULT. MR. MULDOON'S PROPOSAL AT THE COMMONWEALTH MEETING IN LONDON FOR A NEW BRETTON WOODS CONFERENCE DID NOT HOWEVER ATTRACT MUCH SUPPORT IN TORONTO.

6. FOR THE UNITED KINGDOM, THE CHANCELLOR OF THE EXCHEQUER, IN A SPEECH WHICH WAS WELL RECEIVED BY THE PRESS AND OTHER DELEGATIONS, STRESSED THE IMPORTANCE OF STABILITY AND FLEXIBILITY AS PRECONDITIONS OF ECONOMIC SUCCESS. THERE WERE INEVITABLE TENSIONS OF TRANSITION FROM THE SERIOUS EXCESSES OF PREVIOUS YEARS TO A SITUATION OF LOW INFLATION AND SOUNDLY-BASED RECOVERY. THERE WAS, HOWEVER, NO ALTERNATIVE TO CONTINUING THE FIGHT AGAINST INFLATION. AN IMPORTANT BATTLE HAD BEEN WON IN THE UNITED STATES BY THE PASSING OF THE TAX PACKAGE, BUT A LONG CAMPAIGN MIGHT STILL LIE AHEAD. HE ANALYSED THE PRESENT PROBLEMS OF THE INTERNATIONAL BANKING SYSTEM, STRESSING THE IMPORTANCE OF THE BANKS' OWN RISK ASSESSMENT AND THE NEED FOR EFFECTIVE BANK SUPERVISION. THE COUNTER-INFLATIONARY STRATEGY INVOLVED ACTION UNDER FIVE BROAD HEADINGS: SUPPORT FOR THE FUND AND THE BANK: PURSUIT OF RESPONSIBLE

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NATIONAL FINANCIAL POLICIES: GREATER EXCHANGE RATE STABILITY: ENLISTING POPULAR SUPPORT FOR PAY RESTRAINT AND FREE MARKETS: AND APPROPRIATE ADJUSTMENT POLICIES IN COUNTRIES WITH EXCESSIVE DEBTS, WITH A MATCHING RESPONSIBILITY SHOWN BY THE PRIVATE SECTOR BANKS.

7. THE UNITED STATES FOUND THEMSELVES SOMEWHAT ISOLATED BOTH ON THE GENERAL ECONOMIC OUTLOOK, AND ON THE FUNDING OF THE IMF AND IDA. THE US REPRESENTATIVES TOOK A CONSIDERABLY MORE BULLISH LINE ON THE PROSPECTS FOR RECOVERY IN THE UNITED STATES AND ELSEWHERE, BUT THESE VIEWS WERE GENERALLY NOT SHARED BY OTHER COUNTRIES OR BY THE NEW YORK FINANCIAL COMMUNITY. A US INITIATIVE TO EXAMINE A NEW BORROWING ARRANGEMENT FOR THE FUND WAS ALSO RECEIVED WITH CAUTION. THE INTERIM COMMITTEE ASKED THE IMF EXECUTIVE BOARD TO ASSESS THE ADEQUACY OF EXISTING ARRANGEMENTS TO DEAL WITH MAJOR STRAINS IN THE INTERNATIONAL FINANCIAL SYSTEM, BUT IT WAS CLEAR THAT THEY DID NOT WANT THIS TO DELAY DECISIONS ON THE QUOTA REVIEW OR TO IMPLY A SIGNIFICANTLY LOWER OVERALL QUOTA INCREASE.

8. APART FROM THE US, THERE WAS GENERAL CONVERGENCE TOWARDS A FIGURE FOR THE QUOTA INCREASE WITHIN A RANGE OF 50 TO 100 PER CENT. THERE WAS ALSO GENERAL AGRELMENT THAT WORK ON THE QUOTA REVIEW SHOULD BE ACCELERATED, SO THAT THE REMAINING ISSUES COULD BE RESOLVED BY THE TIME OF THE COMMITTEE'S MEETING IN THE SPRING. THE US GOVERNOR ACCEPTED THAT THIS TIMESCALE SHOULD BE A REALISTIC AIM FOR BASIC DECISIONS ON THE QUOTA REVIEW AND ON THEIR BORROWING PROPOSAL.

9. THE MANAGING DIRECTOR AGAIN REPORTED THAT THERE WAS NOT THE BROAD SUPPORT AMONG THE MEMBERSHIP REQUIRED FOR A FURTHER ALLOCATION OF SDRS. THIS WAS REGRETTED BY MANY REPRESENTATIVES OF DEVELOPING COUNTRIES, BUT THE MAIN INDUSTRIAL COUNTRIES HELD TO THEIR VIEW THAT AN ALLOCATION AT THIS TIME COULD HAVE UNDESIRABLE INFLATIONARY IMPLICATIONS. THERE WAS GENERAL SUPPORT FOR THE FUND'S CONTINUING STUDY OF THE ROLE OF THE SDR.

10. MANY SPEAKERS WELCOMED THE VERSAILLES INITIATIVE ON INTERNATIONAL SURVEILLANCE. GOVERNORS OF THOSE COUNTRIES WHOSE CURRENCIES MADE UP THE SDR BASKET RECONFIRMED THEIR COMMITMENT TO THE EXERCISE. THE MANAGING DIRECTOR STRESSED ITS IMPORTANCE: WHILE ACTION NOW LAY WITH THE MAJOR INDUSTRIAL COUNTRIES, THE FUND WOULD ASSIST IN BRINGING ABOUT THE DESIRED CLOSER CONVERGENCE OF POLICIES. THE FIRST MEETING BETWEEN THE 5 COUNTRIES AND THE MANAGING DIRECTOR TOOK PLACE IN THE MARGINS OF THE ANNUAL MEETING, BUT NO PUBLIC REPORT WAS MADE TO THE MEMBERSHIP AS A WHOLE. THERE WAS LITTLE MENTION IN THE PLENARY SESSION OF THE JOINT STUDY OF INTERVENTION POLICY, BUT THE PROGRESS OF THIS STUDY WAS CONSIDERED SEPARATELY AT A MEETING OF FINANCE MINISTER OF THE SUMMIT COUNTRIES.

11. IN SEPARATE MEETINGS, THE IDA DEPUTIES REPRESENTING NON-US DONORS AGREED TO RECOMMEND TO THEIR GOVERNMENTS PROPOSALS DESIGNED TO RAISE IDA'S COMMITMENT AUTHORITY IN FY84 TO A

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REASONABLE LEVEL, DESPITE THE SPREADING OF THE US CONTRIBUTION TO IDA6 OVER A LONGER PERIOD THAN 3 YEARS. THESE DONORS WILL GENERALLY PAY (EITHER INTO A SPECIAL ACCOUNT WITHIN IDA OR INTO A SPECIAL PARALLEL FUND) AMOUNTS EQUIVALENT TO ONE-THIRD OF THEIR CONTRIBUTIONS TO IDA 6. ADJUSTMENTS WERE MADE TO THE SUMS PAYABLE BY GERMANY AND THE UK TO TAKE INTO ACCOUNT THE UNDULY HIGH LEVEL OF THEIR CONTRIBUTIONS TO IDA 6. IT WAS AGREED ALSO THAT NEGOTIATIONS FOR IDA 7 SHOULD BEGIN IN NOVEMBER.

12. NO GOVERNOR SOUGHT A DISCUSSION OF THE FUND'S RELATIONS WITH SOUTH AFRICA, WHICH THE UN GENERAL ASSEMBLY HAD ASKED SHOULD BE PLACED ON THE AGENDA OF THE MEETING. THIS WAS ALSO THE FIRST ANNUAL MEETING FOR SOME YEARS AT WHICH WE DID NOT HAVE TO DEVOTE A GREAT DEAL OF TIME TO THE QUESTION WHETHER THE PLO SHOULD BE ALLOWED TO SEND OBSERVERS. THE ARAB COUNTRIES CLEARLY DID NOT WANT TO DISTURB THE HANDLING OF A MEETING CHAIRED BY AN ARAB GOVERNOR. BUT THEIR ACQUIESCENCE WAS BOUGHT AT THE EXPENSE OF AGAIN HAVING NO OBSERVERS OTHER THAN SWITZERLAND: THE MATTER HAS NOT BEEN PERMANENTLY RESOLVED.

FCO PASS SAVING TO ATHENS, BONN, BRUSSELS, COPENHAGEN, DUBLIN LUXEMBOURG, PARIS, ROME, THE HAGUE, UKREP BRUSSELS, OTTAWA, TOKYO, JEDDA, RIYADH, KUWAIT, MEXICO CITY, NEW DELHI, UKDEL OECD, UKMIS GENEVA, CANBERRA, WELLINGTON, TEL AVIV, PRETORIA, CG TORONTO.

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FROM UKDEL IMF/IBRD WASHINGTON

TO ROUTINE FCO SAVINGRAM NO 422 OF SEPTEMBER 29, 1981 AND TO UKDEL OECD, UKREP BRUSSELS, UKMIS GENEVA AND UKMIS NEW YORK

IMF: INTERIM COMMITTEE

1. The Interim Commitee held its seventeenth meeting in Washington on 26-27 September. The meeting was chaired by MacEachen (Canada). The Chancellor of the Exchequer, accompanied by the Governor of the Bank of England and Sir Kenneth Couzens, represented the United Kingdom.

World Economic Outlook

2. The Managing Director opened the discussion, speaking to ICMS/Doc./81/15. Despite continuing difficulties, there were some encouraging signs. It was crucial that the industrial countries' efforts to control inflation should not be relaxed. Premature stimulation of domestic demand would entail greater economic and social hardship in the medium term. A comprehensive, integrated policy approach was required. The developing countries should also undertake strong adjustment measures. Comprehensive adjustment policies in industrial and developing countries could pave the way for an improved world economic outlook by the second half of the decade. This would require strengthened international cooperation. Protectionist pressures had to be resisted.

3. The Chancellor delivered the agreed statement on behalf of the European Communities. One factor which made a resumption of non-inflationary growth more difficult for Community countries was the high level and volatility of interest rates and their implications for exchange rates. Peaks in US interest rates had led to higher interest rates in a number of member countries than was generally warranted by purely domestic considerations. The Community thought it

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was essential to intensify the dialogue on these matters. He drew attention to the Community's efforts to alleviate the serious problems of non-oil LDCs in the areas of trade, private direct investment and ODA. The Eighth Quota Review should be implemented without delay. If additional Fund borrowing was required, the Community hoped arrangements could be made with countries in strong balance of payments positions. The Executive Board might wish to examine the role of the SDR in currently foreseeable circumstances.

4. Van Lennep (OECD) said the OECD Secretariat's forecasts for the next 12 months were similar to those of the Fund. OECD members had to soldier on with restrictive policies before any real improvement could be expected. The scope for deviation, either way, from the present stance of fiscal and monetary policies was very limited. The seemingly impossible but essential task of governments was to find the right combination of firmness and flexibility. Governments should use a balanced combination of all available policy instruments, including reductions in public expenditure and a wage/price dialogue with employers and trade unions. They should also try to balance short and long term objectives. There was no simple cure for the distorting effects of unusually large exchange rate fluctuations. Governments had to aim for the middle ground between unduly rigid and unduly volatile exchange rates. The achievement of greater coordination in policymaking was the major challenge facing the Fund.

5. Virata (Philippines), speaking as Chairman of the G-24, said the solution to the world's economic problems did not lie in protection, excessive doses of monetary restraint or adjustment on the part of deficit countries alone. Longer term structural adjustment was the responsibility of all countries. Policies on these lines should be supported by international financial institutions whose lending conditions should take full account of/the circumstances of individual countries.

/Greater

Greater international cooperation and political will could help to restore the world economy.

6. Regan (US) said that confidence in the ability of governments to solve economic problems had been eroded. If governments, including the US, could maintain their anti-inflationary policies on a steady course some of that confidence might be restored. It would not be easy to eliminate the major imbalances which had built up over the past decade. There were two fundamental lessons to be drawn from the recent past. First, government stimulation of domestic demand stimulated inflation and stifled growth. Second, government restrictions distorted resource allocations and reduced the incentives for saving and investment. For the future, the US would continue its efforts to reduce the fiscal deficit, the Federal Reserve Board would not reverse its present monetary stance and the Administration would make every attempt to resist domestic protectionist pressures.

7. Mayekawa (Japan) said deep-rooted inflationary expectations and market rigidities would be hard to erase. There was no alternative to the firm maintenance of anti-inflationary policies. Measures to promote structural adjustment should help to solve unemployment in the medium term. Protectionist barriers could only delay the necessary adjustment. The non-oil LDCs had to rely on their own adjustment efforts as well as assistance from industrial countries, oil exporters and international institutions. He outlined recent developments in the Japanese economy, stressing that the authorities were unclear how long the current account surplus would continue.

8. Delors (France) hoped that the Cancun Summit and the global negotiations would lead to concrete measures without creating new bureaucratic structures. The rise in interest rates and the erratic movements in the dollar were the equivalent of a third oil shock. This had had extremely serious consequences for the non-oil LDCs who were caught in a vicious circle. Aid flows to these

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countries had to be used for debt servicing rather than new investment. Fund surveillance had to be evenly applied and all forms of protectionism dismantled. The rise in unemployment in industrial countries had eroded the essential values on which Western growth and prosperity had been based. The French Government had therefore changed the balance of their policy while recognising the risks involved. Additional public expenditure was possible as a temporary measure in France which had one of the lowest budget deficits among industrial countries. Fund conditionality should continue to be administered on the same lines as at present. Closer cooperation among industrial countries to reduced unjustified exchange rate fluctuations was essential. He was not advocating a return to fixed exchange rates, rather a return to the spirit of Bretton Woods.

9. The Chancellor, speaking on behalf of the United Kingdom, said he shared the general concern about the prospect of high unemployment and low growth. But the maintenance of firm policies in industrial countries to reduce inflation was essential to create the conditions for sustained recovery. The experience of the UK, where inflation and structural rigidities were deep-rooted, showed that such policies were crucially necessary. The high level of international interest rates and the related fluctuations in exchange rates emphasised the need for sustained pursuit of steady monetary policies supported by firm control of budget deficits. This would require patience and nerve. It was as difficult for a sophisticated developed country to get its performance right and gain the confidence of the market as it was for developing countries to comply with the lending conditions of the international financial institutions. Developed and developing countries faced the inescapable need to adjust, however small the room for manoeuvre. The alternative of not adjusting would be far worse for developing countries. Firm conditionality, sensibly and sensitively applied, was therefore essential.

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10. Andreatta (Italy) was concerned about the high level of US interest rates. Industrial countries should cooperate to ensure exchange market stability. A reversal of the recent sharp appreciation of the dollar could improve growth conditions outside the US. The high concentration of current account deficits and external debt on a small group of large LDCs was a cause of concern. The international capital markets had coped adequately so far but there was no room for complacency. Increased prudential supervision of international lending was essential, particularly in view of the high level of international interest rates which added to the debt service burden of borrowing countries. Van Der Stee (Netherlands) agreed with the Managing Director that premature reflation would lead to higher unemployment. Even the more cautious projections of the Fund might be considered optimistic, given the high budget deficits in many industrial countries, continuing exchange rate uncertainties and/the high level of international interest rates. Supply side measures had so far been implemented more courageously in Japan and the United States than elsewhere. A renewed commitment to a balanced mix of policies was required. He was concerned by the apparent unwillingness of some developed countries to pursue policies which would promote international development.

11. Nordal (Iceland) thought that greater emphasis on fiscal policy, investment incentives and energy conservation could promote employment and reduce exchange rate and interest rate fluctuations which were particularly harmful for smaller open economies. The major currency countries should improve the machinery for cooperation and consultation. Protection was the least efficient way of tackling economic problems. Bruton (Ireland) thought the industrial countries had responded more effectively to the second oil shock than to the first. Adjustment policies had to pay due regard to unemployment as countries could not afford a substantial waste of human resources. Fully complementary fiscal and monetary policies were essential. Governments had to communicate their policies effectively to the

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general public. Vandeputte (Belgium) saw a need for wide-ranging structural changes in developed and developing countries. A self-defeating competitive drive for adjustment had to be avoided at all costs. A cooperative approach to adjustment would entail efficient energy conservation, stable energy prices, trade liberalisation and more effective Fund surveillance to maintain orderly market conditions.

12. Virata, speaking on behalf of his constituency, said the size of fiscal deficits in the major industrial countries was a cause of serious concern. Premature reflation could not lead to sustained growth or a lasting fall in unemployment. Adjustment was not merely a prescription for LDCs. Misapplied adjustment policies in developed countries could have adverse consequences for LDCs. "Negative" adjustment in the form of protection had to be avoided. Alvarez Rendueles (Spain) argued for a better combination of adjustment policies in industrial countries. Incomes policies could be a useful supplement to traditional demand management measures. The priority task for the Fund was to reduce excessive exchange rate fluctuations.

13. Al-Quraishi (Saudi Arabia) said Saudi Arabia would continue to do its utmost in its production, pricing, aid and investment policies to facilitate the process of adjustment and recycling. All countries had to undertake long term structural adjustments, particularly industrial countries. The Fund and the World Bank should be prepared to provide adequate finance to countries which undertook the necessary adjustment measures. Wang (China) said strengthened international cooperation was important for world peace and security. Developments in industrial countries had caused many of the problems which LDCs now faced. The subordinate position of LDCs hindered their restructuring efforts. The establishment of a new international economic order was a precondition for speeding up the world development process. Developed countries should avoid shortsighted

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cuts in aid and contributions to international financial institutions.

14. Venkataraman (India) said the problems facing non-oil LDCs had been exacerbated by misguided monetarism in industrial countries, undue and unwarranted restraints on the activities of the multilateral institutions and stagnant aid flows. The non-oil LDCs accepted the need for adjustment but sizeable balance of payments financing was required in the short term. The international institutions should not be relegated to a residual role at this critical juncture. Saleh (Indonesia) hoped the industrial countries would rely on stronger policies—following the example of Japan—rather than good luck to achieve better growth rates. The Fund should play a more forceful role in encouraging harmonised policies among industrial countries. Al-Najafi (Iraq) urged industrial countries to adopt consistent fiscal and monetary policies combined with supply side measures to improve economic efficiency. Protectionist barriers should be reduced. Low income LDCs were heavily dependent on aid flows which should be increased.

15. Galveas (Brazil) noted that the higher growth scenarios of the Fund staff could be achieved only if the oil exporters followed stable pricing policies and industrial countries undertook structural adjustments and stepped up aid flows. The unwillingness of developed countries to pursue policies supportive of international development was worrying. Public expenditure cuts in developed countries should not entail a reduction in their contribution to international financial organizations. Sigaut (Argentina) emphasised that high real interest rates severely impaired the ability of developing countries to finance their deficits or plan ahead. The costs of adjustments ought to be distributed equitably between developed and developing countries. Access to industrial country markets was vital if LDCs were to exploit their comparative advantage. The Fund's surveillance and financing roles should be stepped up. Ndegwa (Kenya)

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highlighted the adverse impact of restrictive policies in industrial countri on export growth in LDCs. The LDCs had been forced to draw down their reserv and sharply reduce the growth in their imports. A flexible, gradual approach by the Fund would allow countries a reasonable time for adjustment without causing social upheavals. Aoufi (Algeria) and Sambwa (Zaire) called for a balanced policy mix in industrial countries.

Fund policies

(i) SDR allocation in the fourth basic period

16. The Managing Director briefly outlined the different views expressed in the Executive Board in August. The discussion which followed showed that these differences remained. Speakers from the major industrial countries thought there was no case for new allocations in present circumstances. Regan argued forcefully that an allocation at a time of excess world liquidity would contrast sharply with domestic efforts to control inflation. Mayekawa said the impact of an allocation on inflationary expectations could not be ignored. The objective of making the SDR the principal reserve asset should be carefully studied. If the SDR were made more attractive, countries might be induced to hold more. Schulmann (Germany) said a need to supplement global liquidity under the Articles had not been established. The time was not right for new allocations which would cast doubts on members' anti-inflationary policies The Chancellor underlined his support for the objective of making the SDR the principal reserve asset and welcomed recent steps to increase its usefulness. But he shared the doubts about the case for an allocation in present circumstances. Any allocation, even a small one, could risk giving the wrong signal and undermine the emphasis on adjustment. Extra liquidity, if needed, should be provided subject to appropriate conditions. The Fund could perhaps reexamine the question but it would not be sensible to set a deadline which would pre-empt future discussions. Howard (Australia) said his constituency was divided but he remained to be convinced that there was a need for new

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allocations at present.

17. Speakers from other developed countries were more sympathetic to the case for new allocations. Van der Stee said a negative decision would be illogical The Netherlands favoured a modest allocation while others in his constituency supported larger amounts. A way out of the impasse would be to extend the third basic period and continue the present rate of allocation for a further two years. Andreatta supported this proposal and also felt the role of the SDR should be re-examined and consideration given to a fully SDR-based fund. Vandeputte supported modest allocations of SDR 4-6 billion per annum. The Fund should use its power to allocate SDRs more flexibly and perhaps consider an allocation to help finance ordinary drawings subject to appropriate conditionality. This would enhance the SDR's role and integrate the Fund's financing windows. Nordal favoured a modest allocation and a basic period of less than five years. Bruton thought there was no compelling need to supplement international liquidity but could support a modest allocation designed to enhance the SDR as the principal reserve asset.

Belgian.

?? i.e. allocate to General Resources Account?

18. Speakers from developing countries rehearsed familiar arguments in support of an allocation. Al-Quraishi supported modest allocations, arguing that a failure to continue allocations would imply a setback for the SDR's role as an important reserve asset. The inflationary impact of a modest allocation would be marginal. Wang described new allocations as logical and necessary. Venkataraman favoured "substantial" allocations, particularly as low income countries did not have access to capital markets. Aoufi wanted allocations of SDR 12 billion per annum. Al-Najafi said a positive and significant allocation would be consistent with the Articles. Ndegwa argued that the Fund could not "backtrack" on the SDR. Sambwa supported an allocation of sufficient amounts to restore the relative importance of SDRs in international reserves.

19. Galveas said new allocations were necessary to restore the balance between

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conditional and unconditional liquidity in the Fund. Sigaut said a decision not to allocate would imply the Fund was giving up on the SDR. He was flexible about possible amounts and the length of the basic period. Saleh felt it was important to base the international monetary system on an international managed reserve instrument. A zero allocation would violate the spirit of Article VIII 7. Alvarez Rendueles said it was necessary to halt the relative decline in the SDR's share in international reserves.

(ii) Fund's liquidity position and financing

20. The Managing Director outlined developments under the enlarged access policy. Further borrowing might be required if available resources proved insufficient. The Fund had an important role as lender of last resort and repository of a significant proportion of members' reserves. Its useable assets had therefore to be maintained at a level which gave confidence in the Fund's ability to respond to sudden shocks.

21. Regan said the Fund's liqudity should be kept under careful review with particular regard to borrowers' willingness to adopt appropriate adjustment measures. The Fund's current and prospective liquidity did not warrant additional borrowing at this time. Schulmann agreed the Fund's liquidity position was comfortable. If additional borrowing was required, the Fund should make official bilateral arrangements. The need to tap private markets was not established. Strict adherence to conditionality would enable the Fund to husband scarce resources. Mayekawa supported further efforts to borrow from surplus members. Recourse to the private markets should be avoided unless truly indispensable. The Chancellor also felt that the Fund's liquidity position should be kept under careful review. He hoped more members in a position to do so would feel able to lend to the Fund. While recognizing that the Fund's role as a conditional lender rested on the moral authority bestowed by its cooperative quota base, he was not against market borrowing if there was a temporary gap to be bridged. Such borrowing need not change the Fund's character.

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22. Howard saw no cause for concern at the present. Additional borrowing should be from official sources to the maximum extent possible. Van der Stee regarded the liquidity position as disquieting but thought market borrowing was not a solution and would only be acceptable if and when absolutely necessary. The Fund should first examine the consequences for its quasi central bank character, future quota increases and the cost of using Fund resources. Borrowing guidelines were necessary. Vandeputte said the Fund should try to borrow on concessional terms and go first to official borrowers.

23. Bruton thought temporary borrowing unavoidable. All possible sources, including the private markets, should be explored. The Fund should go to the markets "if necessary" as an exceptional measure. Borrowing guidelines might be counterproductive and give wrong signals to the markets. Andreatta had a strong preference for official borrowing but, if insufficient, the Fund should have the flexibility for temporary recourse to the private markets. Nordal agreed.

Private borrowing - Italy, Nordics.

24. Al-Quraishi thought all countries with sizeable reserves should lend to the Fund. To facilitate this, the Fund should lay out a clear borrowing policy. Wang hoped financially capable countries would lend to the Fund. A "prudent" approach to the market would be consistent with the Fund's inter-governmental cooperative nature. Alvarez Rendueles was not concerned by the prospective financing gap on a commitments basis as disbursements were, in his view, much more relevant. Venkataraman said all possible avenues should be explored to finance the policy of enlarged access. If necessary, the Fund should go to the markets. Saleh was not opposed to market borrowing—with appropriate safeguards—if the need arose. Sigaut supported market borrowing if official borrowing was inadequate. The Fund should go early to the markets

inc Kuwait, UAE!

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to get the best possible terms. An internal, flexible borrowing ceiling expressed in terms of quotas would be sound financial practice.

(iii) Eighth Quota Review

25. The Managing Director noted that some progress had been made in improving data and simplifying the formulae. He might be in a position to present a fuller report in Helsinki.

26. Several speakers, including Al-Quraishi, Andreatta and Wang thought the Eighth Quota Review should be speeded up. An interim equi-proportional increase in one form or another was supported by Vandeputte, Venkataraman and Sigaut. Mayekawa and van der Stee emphasised the importance of appropriate selective increases which would, they argued, benefit the Fund's liquidity.

27. Regan thought the review should be completed on schedule. The Chancellor saw no intrinsic merit in a two-stage approach. He doubted whether it would speed up the review as each stage would require national legislation. He agreed the review should be fundamental. The anomalies in the formulae had to be tackled carefully if members were to have confidence in the Fund's calculations as a starting point. Selective adjustments should be orderly and evenhanded. The review should not be delayed but it might be difficult to accelerate progress greatly.

28. Virtually all speakers from developing countries called for a substantial overall increase. Venkataraman/ said the need for this was self-evident. The variables and their respective weights in the formulae should be re-examined to achieve a proper balance between the ability to contribute and the need to draw from the Fund. A poverty index based on per capita income should be included. Aoufi also favoured revised formulae and thought voting power should be reviewed with an increase in the number of basic votes one possibility. Al-Najafi said a better balance between developed and developing countries' quota shares would strengthen the Fund's role. Alvarez Rendueles hoped the review would result in

/greater

greater LDC participation in the Fund.

(iv) Surveillance/adjustment activities

29. The Managing Director defended Fund conditionality. The Fund had provided effective assistance to a number of members. Without this assistance, several countries would have risked financial collapse. The Fund was "totally committed" to the need for conditionality and the goal of helping members to reduce their deficits to sustainable levels. Fund resources had provided the impetus for adopting politically difficult measures and had often proved the catalyst for other financial flows. Fund programmes had not always succeeded but had in most cases made a substantial contribution to adjustment. On surveillance, he thought it essential to keep the world trade and payments system free of restrictions. All countries, particularly industrial countries, had to follow appropriate exchange rate policies. The Fund could play a more active role if members wished it to. Discreet consultations, on the basis of established procedures, could lead to a better understanding of the inter-relation between domestic and external policies and the links between different members' policies, perhaps helping to reduce exchange rate volatility.

30. Regan said the US had always been a strong supporter of the Fund and would remain so under the Reagan Administration. The Fund could fulfill several critical functions. In its surveillance activities, it could ensure that countries did not manipulate exchange rates. It could act as a forum for consultations on national economic and financial policies. It could provide temporary balance of payments finance subject to appropriate conditions. It could monitor world liquidity developments and supplement or restrict the supply of international liquidity when necessary. It should expand technical assistance to improve the implementation of adjustment policies. None of these functions should be neglected nor should the Fund over-extend itself in any one area. Fund

/conditionality

conditionality should be based on certain definite principles. Members should make every effort to adjust early. The Fund should take account of a member's past cooperation and previous use of Fund resources. Fund assistance should be provided only when there was a clear balance of payments need. A sustainable balance of payments position should be the overriding objective for all Fund programmes. EFF programmes should include significant structural policies, steps to trade liberalisation and more open exchange rate systems, and more flexible domestic pricing policies.

31. The Chancellor welcomed the renewed emphasis on the Fund's surveillance role. The Fund was uniquely placed to take a supranational view of domestic policies. Its powers were necessarily limited, but it could give valuable advice on the appropriateness of exchange rate levels. There was no need for new procedures. Existing procedures could be used more intensively—with discretion and care—in a broader international context. Van der Stee also favoured flexible implementation of existing procedures together with more active use of informal and low key special consultations. Nordal favoured a strengthened role for evenhanded Fund surveillance. Existing procedures could be used more actively to ensure that the exchange rate policies of major countries were in line with the Fund's guidelines. Bruton said the Fund could help to improve understanding of the exchange rate's role in the adjustment process.

32. Few speakers from developing countries referred directly to surveillance but those that did, notably Al-Najafi and Alvarez Rendueles, emphasised that surveillance should be evenhanded and should focus on reserve currency countries. Several speakers from this group underlined the need for flexible conditionality. Venkataraman and Sambwa urged the Fund to move away from its traditional exclusive focus on short-term stabilisation.

/Other

33. Other

(i) The Managing Director told the Committee that the SFF Subsidy Account had so far received contributions of SDR 25 million from eight countries. This was unfortunately insufficient to pay subsidies to eligible members at the maximum levels outlined in the Instrument. Venkataraman said the Fund should consider extending the Subsidy Account to reduce the cost of borrowing under the enlarged access policy.

(ii) Bruton noted that one of his Caribbean members—clearly Grenada—thought that Fund/Bank collaboration was not working as well as had been hoped. His Caribbean members hoped the Fund would consider a natural disaster facility which could help small island states who were vulnerable to external shocks.

Next Meeting

34. It was agreed that the next meeting of the Interim Committee would be held in Helsinki on 12-13 May 1982.

Press Communique

35. Discussion of the Communique focused exclusively on a form of words regarding SDR allocations. Galveas suggested the following: "The Committee urged the Executive Board to continue its deliberations on the question of allocation of SDRs. It recommended that the Board should take as the basis for these deliberations the proposal to extend the third basic period and continue the rate of allocations established in 1978". This was supported by a majority of the Committee, including van der Stee, Nordal, Vandeputte and Al-Quraishi. But, after questions from the Chancellor and others, it became clear that the second sentence was open to several interpretations. In particular, it was not clear whether the Executive Board was being asked to decide on a possible extension of the third basic period or whether the third basic period would automatically be extended while the Executive Board continued its deliberations on the fourth basic period. The Chancellor proposed a clearer form of words which the Committee agreed and which was incorporated into the Communiqu

36. FCO please pass saving to UKDEL OECD, UKREP Brussels and UKMIS Geneva.

37. Washington please pass saving to UKMIS New York.

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TELEGRAM NUMBER 187 OF 10 SEPTEMBER
INFO SAVING EC POSTS, OTTAWA, TOKYO, JEDDA, RIYADH, KUWAIT, MEXICO CITY, NEW DELHI, UKDEL OECD, UKMIS NEW YORK, UKMIS GENEVA, CANBERRA, WELLINGTON, TEL AVIV, PRETORIA, CG TORONTO.

IMF/IBRD 1982 ANNUAL MEETINGS.

THE 1982 ANNUAL MEETINGS OF THE IMF AND THE WORLD BANK WERE HELD FROM SEPTEMBER 6 TO 9 IN TORONTO. THEY WERE PRECEDED BY MEETINGS OF THE IMF INTERIM COMMITTEE AND THE IMF/IBRD DEVELOPMENT COMMITTEE, ON WHICH SEPARATE REPORTS HAVE BEEN SENT SAVING.

2. THE MEETINGS TOOK PLACE AGAINST A BACKGROUND OF WIDESPREAD ANXIETY ABOUT THE GENERAL ECONOMIC OUTLOOK. ALTHOUGH PROGRESS HAD BEEN MADE IN REDUCING INFLATION IN SOME MAJOR INDUSTRIAL COUNTRIES, UNEMPLOYMENT WAS HISTORICALLY HIGH AND THERE SEEMED LITTLE SIGN OF EARLY RECOVERY. IN THE DEVELOPING COUNTRIES TOO, GROWTH RATES HAD GENERALLY DECLINED, AND ALTHOUGH THE RECENT FALL IN INTEREST RATES MIGHT OFFER SOME PROSPECT OF RELIEF, THE DEBT BURDEN IN SOME COUNTRIES HAD REACHED EXCESSIVELY HIGH LEVELS. THESE CONCERNS WERE BROUGHT INTO SHARP FOCUS BY THE FINANCIAL CRISIS IN MEXICO, AND THE GROWING LIQUIDITY PROBLEMS ELSEWHERE IN SOUTH AMERICA AND EASTERN EUROPE, WHICH WERE SEEN AS SEVERELY TESTING THE RESILIENCE OF THE WORLD FINANCIAL SYSTEM.

3. THE SPEECHES IN THE PLENARY SESSION, AND THE COMMUNIQUES OF THE INTERIM AND DEVELOPMENT COMMITTEES, ARE BEING SENT BY BAG TO LONDON. THE MANAGING DIRECTOR OF THE FUND STRESSED THAT UNEMPLOYMENT WAS A DEEP-ROOTED PROBLEM FOR WHICH THERE WERE NO QUOTE QUICK FIXES UNQUOTE. DESPITE CURRENT PROBLEMS, THE ANTI-INFLATIONARY POLICY STANCE REMAINED AS VALID AS EVER. IT WAS STILL NECESSARY TO ACHIEVE A BETTER AND MORE UNIFORM PRICE PERFORMANCE AND TO TACKLE STRUCTURAL RIGIDITIES. FISCAL POLICY, IN THE UNITED STATES AND ELSEWHERE, SHOULD GIVE MORE EFFECTIVE SUPPORT TO MONETARY POLICY. HE MADE STRONG PLEAS FOR THE PURSUIT OF LIBERAL TRADE POLICIES AND FOR THE MAINTENANCE OF ADEQUATE FLOWS OF CONCESSIONAL AID. COMPREHENSIVE ADJUSTMENT EFFORTS WERE NEEDED IN BOTH INDUSTRIAL AND DEVELOPING COUNTRIES. IF THE FUND WAS TO PLAY AN ADEQUATE PART IN ASSISTING AND ENCOURAGING THESE EFFORTS IT URGENTLY NEEDED A SUBSTANTIAL INCREASE IN QUOTAS. THE FUND ALSO NEEDED TO STEP UP ITS SURVEILLANCE ACTIVITY IN AN EFFECTIVE AND EVEN-HANDED WAY.

4. THE PRESIDENT OF THE WORLD BANK COVERED MUCH OF THE SAME GROUND IN DESCRIBING THE ECONOMIC SITUATION. HE STRESSED THAT SUSTAINED GROWTH IN THE DEVELOPING COUNTRIES DEPENDED ON SOUND DOMESTIC POLICIES AS WELL AS ON GROWTH IN THE INDUSTRIAL WORLD AND ON ADEQUATE CAPITAL FLOWS. THERE WAS A COMPLEMENTARITY BETWEEN THE

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TWIN OBJECTIVES OF EFFICIENT ECONOMIC GROWTH AND THE ALLEVIATION OF POVERTY IN DEVELOPING COUNTRIES. HE POINTED TO THE ACTION TAKEN IN THE PAST YEAR TO STRENGTHEN THE FINANCIAL POSITION OF THE IBRD AND ENCOURAGE CO-FINANCING, AND TO MOBILISE COMMERCIAL RESOURCES THROUGH THE IFC. HIS MAIN EMPHASIS HOWEVER WAS ON IDA. DRAWING ON THE RECENT STUDY OF IDA'S PERFORMANCE SINCE ITS INCEPTION, HE NOTED IDA'S IMPORTANT CONTRIBUTION TO DEVELOPMENT THROUGH PROJECTS SHOWING A HIGH AVERAGE ECONOMIC RATE OF RETURN. HE DEPLORED THE CUTBACK IN IDA FUNDING DUE TO THE FAILURE OF THE UNITED STATES TO COMPLETE ITS CONTRIBUTION TO THE CURRENT REPLENISHMENT DURING THE PRESCRIBED PERIOD, AND WELCOMED THE DECISION BY MANY OTHER COUNTRIES TO RELEASE THEIR CONTRIBUTIONS DESPITE THE US DELAYS.

5. WHILE THE SPEECHES OF INDIVIDUAL GOVERNORS REVEALED CONSIDERABLE DIFFERENCES OF EMPHASIS, THERE WAS WIDE AGREEMENT--AS LAST YEAR--BOTH ON THE NEED FOR ADJUSTMENT AND ON THE KEY ROLE TO BE PLAYED BY THE FUND AND BANK. GOVERNORS FROM INDUSTRIAL COUNTRIES GENERALLY SUPPORTED THE ANALYSIS OF THE MANAGING DIRECTOR, ALTHOUGH WITH A GREATER TONE OF ANXIETY COMPARED WITH PAST MEETINGS. AN EXAMPLE WAS LAHNSTEIN (GERMANY), WHO REFERRED TO THE CRITICAL CIRCUMSTANCES SURROUNDING THE MEETING: ALL OVER THE WORLD A CONTINUED ECONOMIC STAGNATION WAS SEVERELY TESTING THE PATIENCE OF CITIZENS AND POLICY-MAKERS, AND ADVOCATES OF IMPATIENCE WERE GETTING THE UPPER HAND IN MANY COUNTRIES. HE NEVERTHELESS FELT THAT THE NETWORK OF INTERNATIONAL COOPERATION HAD HELD UP WELL UNDER THE CONSIDERABLE STRAIN--A JUDGMENT GENERALLY ECHOED BY OTHER G10 GOVERNORS. DEVELOPING COUNTRIES EXPRESSED SERIOUS CONCERN AT THE CONTINUED STAGNATION IN INDUSTRIAL COUNTRIES, PARTICULARLY IN ITS EFFECT ON COMMODITY PRICES AND ITS ENCOURAGEMENT OF PROTECTIONIST TENDENCIES. WHILE ACCEPTING THE NEED FOR ADJUSTMENT, THEY QUESTIONED WHETHER THE SYSTEM COULD RIGHT ITSELF WITHOUT FURTHER SERIOUS COST TO THEIR ECONOMIES. SOME FELT THAT IF THE RECOVERY DID NOT MATERIALISE SOON, THE TASK OF ADJUSTMENT WOULD BECOME DECIDEDLY MORE DIFFICULT. MR. MULDOON'S PROPOSAL AT THE COMMONWEALTH MEETING IN LONDON FOR A NEW BRETTON WOODS CONFERENCE DID NOT HOWEVER ATTRACT MUCH SUPPORT IN TORONTO.

6. FOR THE UNITED KINGDOM, THE CHANCELLOR OF THE EXCHEQUER, IN A SPEECH WHICH WAS WELL RECEIVED BY THE PRESS AND OTHER DELEGATIONS, STRESSED THE IMPORTANCE OF STABILITY AND FLEXIBILITY AS PRECONDITIONS OF ECONOMIC SUCCESS. THERE WERE INEVITABLE TENSIONS OF TRANSITION FROM THE SERIOUS EXCESSES OF PREVIOUS YEARS TO A SITUATION OF LOW INFLATION AND SOUNDLY-BASED RECOVERY. THERE WAS, HOWEVER, NO ALTERNATIVE TO CONTINUING THE FIGHT AGAINST INFLATION. AN IMPORTANT BATTLE HAD BEEN WON IN THE UNITED STATES BY THE PASSING OF THE TAX PACKAGE, BUT A LONG CAMPAIGN MIGHT STILL LIE AHEAD. HE ANALYSED THE PRESENT PROBLEMS OF THE INTERNATIONAL BANKING SYSTEM, STRESSING THE IMPORTANCE OF THE BANKS' OWN RISK ASSESSMENT AND THE NEED FOR EFFECTIVE BANK SUPERVISION. THE COUNTER-INFLATIONARY STRATEGY INVOLVED ACTION UNDER FIVE BROAD HEADINGS: SUPPORT FOR THE FUND AND THE BANK: PURSUIT OF RESPONSIBLE

NATIONAL FINANCIAL POLICIES: GREATER EXCHANGE RATE STABILITY: ENLISTING POPULAR SUPPORT FOR PAY RESTRAINT AND FREE MARKETS: AND APPROPRIATE ADJUSTMENT POLICIES IN COUNTRIES WITH EXCESSIVE DEBTS, WITH A MATCHING RESPONSIBILITY SHOWN BY THE PRIVATE SECTOR BANKS.

7. THE UNITED STATES FOUND THEMSELVES SOMEWHAT ISOLATED BOTH ON THE GENERAL ECONOMIC OUTLOOK, AND ON THE FUNDING OF THE IMF AND IDA. THE US REPRESENTATIVES TOOK A CONSIDERABLY MORE BULLISH LINE ON THE PROSPECTS FOR RECOVERY IN THE UNITED STATES AND ELSEWHERE, BUT THESE VIEWS WERE GENERALLY NOT SHARED BY OTHER COUNTRIES OR BY THE NEW YORK FINANCIAL COMMUNITY. A US INITIATIVE TO EXAMINE A NEW BORROWING ARRANGEMENT FOR THE FUND WAS ALSO RECEIVED WITH CAUTION. THE INTERIM COMMITTEE ASKED THE IMF EXECUTIVE BOARD TO ASSESS THE ADEQUACY OF EXISTING ARRANGEMENTS TO DEAL WITH MAJOR STRAINS IN THE INTERNATIONAL FINANCIAL SYSTEM, BUT IT WAS CLEAR THAT THEY DID NOT WANT THIS TO DELAY DECISIONS ON THE QUOTA REVIEW OR TO IMPLY A SIGNIFICANTLY LOWER OVERALL QUOTA INCREASE.

8. APART FROM THE US, THERE WAS GENERAL CONVERGENCE TOWARDS A FIGURE FOR THE QUOTA INCREASE WITHIN A RANGE OF 50 TO 100 PER CENT. THERE WAS ALSO GENERAL AGREEMENT THAT WORK ON THE QUOTA REVIEW SHOULD BE ACCELERATED, SO THAT THE REMAINING ISSUES COULD BE RESOLVED BY THE TIME OF THE COMMITTEE'S MEETING IN THE SPRING. THE US GOVERNOR ACCEPTED THAT THIS TIMESCALE SHOULD BE A REALISTIC AIM FOR BASIC DECISIONS ON THE QUOTA REVIEW AND ON THEIR BORROWING PROPOSAL.

9. THE MANAGING DIRECTOR AGAIN REPORTED THAT THERE WAS NOT THE BROAD SUPPORT AMONG THE MEMBERSHIP REQUIRED FOR A FURTHER ALLOCATION OF SDRS. THIS WAS REGRETTED BY MANY REPRESENTATIVES OF DEVELOPING COUNTRIES, BUT THE MAIN INDUSTRIAL COUNTRIES HELD TO THEIR VIEW THAT AN ALLOCATION AT THIS TIME COULD HAVE UNDESIRABLE INFLATIONARY IMPLICATIONS. THERE WAS GENERAL SUPPORT FOR THE FUND'S CONTINUING STUDY OF THE ROLE OF THE SDR.

10. MANY SPEAKERS WELCOMED THE VERSAILLES INITIATIVE ON INTERNATIONAL SURVEILLANCE. GOVERNORS OF THOSE COUNTRIES WHOSE CURRENCIES MADE UP THE SDR BASKET RECONFIRMED THEIR COMMITMENT TO THE EXERCISE. THE MANAGING DIRECTOR STRESSED ITS IMPORTANCE: WHILE ACTION NOW LAY WITH THE MAJOR INDUSTRIAL COUNTRIES, THE FUND WOULD ASSIST IN BRINGING ABOUT THE DESIRED CLOSER CONVERGENCE OF POLICIES. THE FIRST MEETING BETWEEN THE 5 COUNTRIES AND THE MANAGING DIRECTOR TOOK PLACE IN THE MARGINS OF THE ANNUAL MEETING, BUT NO PUBLIC REPORT WAS MADE TO THE MEMBERSHIP AS A WHOLE. THERE WAS LITTLE MENTION IN THE PLENARY SESSION OF THE JOINT STUDY OF INTERVENTION POLICY, BUT THE PROGRESS OF THIS STUDY WAS CONSIDERED SEPARATELY AT A MEETING OF FINANCE MINISTER OF THE SUMMIT COUNTRIES.

11. IN SEPARATE MEETINGS, THE IDA DEPUTIES REPRESENTING NON-US DONORS AGREED TO RECOMMEND TO THEIR GOVERNMENTS PROPOSALS DESIGNED TO RAISE IDA'S COMMITMENT AUTHORITY IN FY84 TO A

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REASONABLE LEVEL, DESPITE THE SPREADING OF THE US CONTRIBUTION TO IDA6 OVER A LONGER PERIOD THAN 3 YEARS. THESE DONORS WILL GENERALLY PAY (EITHER INTO A SPECIAL ACCOUNT WITHIN IDA OR INTO A SPECIAL PARALLEL FUND) AMOUNTS EQUIVALENT TO ONE-THIRD OF THEIR CONTRIBUTIONS TO IDA 6. ADJUSTMENTS WERE MADE TO THE SUMS PAYABLE BY GERMANY AND THE UK TO TAKE INTO ACCOUNT THE UNDULY HIGH LEVEL OF THEIR CONTRIBUTIONS TO IDA 6. IT WAS AGREED ALSO THAT NEGOTIATIONS FOR IDA 7 SHOULD BEGIN IN NOVEMBER.

12. NO GOVERNOR SOUGHT A DISCUSSION OF THE FUND'S RELATIONS WITH SOUTH AFRICA, WHICH THE UN GENERAL ASSEMBLY HAD ASKED SHOULD BE PLACED ON THE AGENDA OF THE MEETING. THIS WAS ALSO THE FIRST ANNUAL MEETING FOR SOME YEARS AT WHICH WE DID NOT HAVE TO DEVOTE A GREAT DEAL OF TIME TO THE QUESTION WHETHER THE PLO SHOULD BE ALLOWED TO SEND OBSERVERS. THE ARAB COUNTRIES CLEARLY DID NOT WANT TO DISTURB THE HANDLING OF A MEETING CHAIRED BY AN ARAB GOVERNOR. BUT THEIR ACQUIESCENCE WAS BOUGHT AT THE EXPENSE OF AGAIN HAVING NO OBSERVERS OTHER THAN SWITZERLAND: THE MATTER HAS NOT BEEN PERMANENTLY RESOLVED.

FCO PASS SAVING TO ATHENS, BONN, BRUSSELS, COPENHAGEN, DUBLIN LUXEMBOURG, PARIS, ROME, THE HAGUE, UKREP BRUSSELS, OTTAWA, TOKYO, JEDDA, RIYADH, KUWAIT, MEXICO CITY, NEW DELHI, UKDEL OECD, UKMIS GENEVA, CANBERRA, WELLINGTON, TEL AVIV, PRETORIA, CG TORONTO.

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THIS TELEGRAM
WAS NOT
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IMS H/02

NB Italy does not favour SDR allocations at present. -§26

Spain regards quota doubling as "adequate objective" -§29

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SAVING TELEGRAM

BY BAG

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FROM UKDEL IMF/IBRD WASHINGTON

TO ROUTINE FCO TELEGRAM NO. SAVING OF MAY 17, 1982, INFO SAVING UKREP BRUSSELS, UKDEL OECD, UKMIS GENEVA AND UKMIS NEW YORK

IMF: INTERIM COMMITTEE

1. The Interim Committee met in Helsinki on 12-13 May under the chairmanship of MacEachen (Canada). The UK was represented by the Chancellor of the Exchequer, accompanied by the Governor of the Bank of England and Sir Kenneth Couzens. (For the communique see Helsinki telno 80 of 13 May.) The following is a summary of the main points in the interventions.

World Economic Outlook and Policies

2. The Managing Director (MD) opened the discussion, drawing on his previously circulated note (ICMS/82/3, 4 May). His theme was the importance of not jeopardising progress on inflation by a premature switch to reflationary policies. There were no easy solutions and the need for economic adjustment was almost universal among industrial and developing countries alike. In the industrial countries, monetary restraint must continue to play the central role in the fight against inflation but it needed support from a comprehensive set of balanced policies, with particular emphasis on greater fiscal restraint. The reduction of inflation and inflationary expectations was a pre-requisite for restoring economic growth, and the major industrial countries had a special responsibility in this regard. In the United States, monetary policy had to remain on its established course; the main issue was the reduction of the Federal fiscal deficit and the containment of Federal spending. In Japan the authorities were exploring various alternatives to expand domestic demand in a way that should offer room for manoeuvre on the monetary front. On Germany, he did not share the view that policies there might be relaxed, and neither did most of the Board. As for other industrial countries, they should follow the kinds of policies recommended for the US. Among them, France was following policies which were thought by some to be of a high risk character.

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The non-oil developing countries (NODCs) were facing a particularly difficult situation, maintly owing to circumstances beyond their control, but partly as a result of the disruptive effects of their own domestic inflation.

3. Regan (US) emphasised the need to avoid reflation and to reduce fiscal deficits, including that of the US. There was a particular need to attend to the "out years" in budget planning. On the world outlook he was more optimistic than the Managing Director, mainly because of the large reduction in the OPEC deficit and the moderation of oil prices, which was helping with inflation. Despite the second US recession in two years, there were bright spots too in the US economy. Inflation was still going down and the indicators gave signs of recovery. The President's tax programme would help bring recovery, and this would in turn boost revenues. Tough decisions were being faced in the budget field. He was hopeful about a new budget plan now before the Senate Budget Committee, which promised deficits of $105 billion in 1983, $70 billion in 1984, and $42 billion in 1985. Meanwhile, interest rates were well off their earlier peaks and that would support recovery.

4. Poehl (Germany) endorsed the MD's position that control of inflation would in due course lead to economic recovery. Inflationary expectations would fall and this would lead to lower interest rates and thence higher investment. Interest rates in the FR were now down to pre-confidence crisis level of 15 months ago and better fundamentals were enabling an easing of monetary policy. Inflation was down to 5 percent and with wage settlements of about 4 percent some recovery in profits was looked for. Output was, however, not yet responding and unemployment (6-7 percent) was still rising. A pickup was expected this year. The fiscal deficit was not satisfactory to a central banker but steps had been taken to reduce it. Meanwhile, interest rates are still too high for Germany by a margin of 3½-4 percent and he was hoping that the US success with inflation would change expectations and bring rates down. Looking abroad, the international indebtedness of some countries had been allowed to grow too fast and was looking dangerous. Nevertheless, the average growth

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rate of NODCs was satisfactory and the Fund had encouraged adjustment and helped countries maintain or restore their credit standing.

5. Mayekawa (Japan) said that world inflation was abating gradually and firm policies were bearing fruit, although there were worries about unemployment and protectionist measures. He agreed on the need for a proper mix of fiscal and monetary policies but thought that each country needed to pursue non-inflationary growth in its own way. There was generally a need for structural policies to release competitive market forces and hence raise productivity. International co-ordination of policies needed to include a medium-term as well as a short-term perspective. In Japan, they were aiming for private demand-led growth and were confident that it would be achieved in time. The current account surplus had peaked in the third quarter of 1981. It was necessary to look at the overall payments balance, not just bilateral trade balances. Capital outflows had been very large: $4½ billion in 1981, including flows through the multilateral agencies. The yen was weak because foreign interest rates were high, but it would strengthen as the fundamentals exerted themselves. As for requests for a more stimulative fiscal stance, the fiscal deficit in 1981/82 had turned out larger than expected, and was high by international standards, as was the national debt/income ratio. So priority had to be given to promoting a sound fiscal policy in the interests of domestic financial stability. Within this framework, some expenditure programmes were being front-loaded. And as for tighter monetary policy, real interest rates were already strongly positive (5-6 percent); tighter policies there would restrain domestic demand.

6. Endorsing the MD's statement, the Chancellor said that the major industrial countries had made significant progress with inflation and so laid the foundation for sustainable recovery. The rise in unemployment was the price that had to be paid for having failed to deal with inflation earlier. There was a strong consensus that those hard-won gains should not be thrown away, but less sureness about policy

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implementation. Citing the MD's recent speech to the American Enterprise Institute, he emphasised the importance of a medium-term policy approach; and pointed to the potential conflict between action to reduce deficits and to ameliorate tax burdens. A convincing medium term strategy for reducing deficits had been put in place in the UK, and a declining trend in public borrowing was being achieved, while key improvements in the tax system had also been made. Significant progress had been made with inflation and wage settlements were much more moderate. High fiscal deficits in the US had raised interest rates and crowded out private investment, and this forced other countries to choose between similarly higher interest rates or the inflationary consequences of currency depreciation. It was therefore important for all that the Administration's budgetary and inflation objectives were achieved. The prevailing mix of fiscal and monetary policies in Japan was hindering the yen from achieving its full strength and causing excessive reliance on external demand: the fiscal easing mentioned by the MD was thus welcome in Japan's case. Japan's large current account surplus was creating presssure for protectionism. Many NODCs had made substantial adjustment to the harsher world environment, and such efforts were continuing, with the help of the Fund. He well understood that recession in industrial countries caused particular problems for NODCs, but there was a common interest in the pursuit of corrective policies. The UK recognised its international responsibilities as a key currency country. (While intervening later on Fund policies, Mayekawa reverted to the Chancellor's remarks about Japan, re-emphasising that Japan's fiscal deficit was too high and arguing that the weakness of the yen was attributable largely to excessively high interest rates abroad.)

7. Delors (France) appealed to the industrial countries not to make developing countries pay for the rehabilitation of their economies: the solution should be a re-emergence of growth within the industrial world. It was essential to avoid polarisation between those who believe in market forces and those who wish to

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strengthen the co-operative role of the multinational institutions. The Fund had so far managed to merge these approaches: it had developed an understanding with developing countries while also achieving a "positive synergy" with the private banking system. France stood ready to help both with conditionality and with surveillance.

8. De Clercq (Belgium) delivered the agreed statement on behalf of the Economic Community (CEC telex of 22 April). The EMS had been a signficant element working towards the convergence of the economic and monetary policies of member states, against a difficult international background. But there was a need for increased co-operation between the major industrialised partners, aimed particularly at encouraging a reduction in interest rates and decreasing exchange rate volatility. It was "vitally important that international co-ordination of economic policy should be strengthened".

9. For Belgium, de Clercq emphasised the need for a balanced set of policies in industrial countries. Excessive reliance on monetary policy had generated very large movements in interest rates. Fiscal policy should be tightened, and incomes policy too was relevant and preferable, where feasible, to restrictive demand policies. De Clercq took the opportunity, with Hungary joining the Belgian constituency, to welcome Hungarian membership of the Fund. Fekete replied briefly, observing that Hungary's economic system was in no way inconsistent with the role of the Fund.

10. Van der Stee (Netherlands) believed that recent policy tightening was now bearing fruit but sacrifices would continue to be needed if inflation was to be brought further down from its unsatisfactory levels. MacSharry (Ireland) thought there was now a more realistic appreciation of the roots of inflation, but that resolute measures were still needed. The softening of oil prices did not remove the problem, which was structural and deep-seated. Industrial countries must do more to open their markets to imports and increase development assistance.

11. Andreatta (Italy), while supporting the need for firm policies, thought there might be scope for stronger action to support aggregate demand on a co-operative basis;

/greater

greater attention should be paid to the international repercussions of domestic policies. Greater exchange rate stability ought to be recognised as a major policy goal, and called for international co-operation, not to defend parities but to stabilise expectations in a volatile market. Alvarez Rendueles (Spain) felt that cutting fiscal deficits could make an important contribution to recovery by lowering interest rates. Developing country problems were largely imported from outside. It was right that the Fund should concentrate more on supply-side adjustment, but it must provide adequate finance to support it.

12. Karjalainen (Finland, for Nordics) stressed the problem of rising unemployment. He felt that there was scope for relaxation of monetary policy in the US if fiscal policy there were tightened; and that countries with strong balance of payments positions had room for cautious expansion. There was a need to strengthen the Fund's surveillance activities, perhaps through joint consultations with key currency countries.

13. Bruce (Trinidad and Tobago), presenting the communique of the G24 Ministers, referred to the need for a strategy to surmount the world's serious economic problems. The per capita income of NODCs had fallen for the first time for a number of years. At around $100 billion, their total external financing requirements were virtually unmanagable, with debt servicing a particular problem. Deficiencies in industrial country policies were largely to blame, especially excessive reliance on monetary policies.

14. Abal-Khail (Saudi Arabia) welcomed the reduction in inflation but expressed worry at the severe problems confronting developing economies. Industrial countries needed a mix of policies that both reduced inflation and helped growth. Structural adjustment was important and improvement of efficiency, not least in energy use, vital. Oil producers would be less well-placed to help with financing of

/LDC

LDC deficits in the next few years. OPEC's current account surplus may be less than $25 billion in 1982. This contraction together with the deterioration of banking confidence implied a greater role for the Fund in financing LDC deficits. Against this background the drift towards a more limited role for the Fund was a matter for concern. Endorsing the G24 communique, Al-Najafi (Iraq) argued that stagflation had hurt NODCs more than oil price increases. The financial policies of oil producers may henceforth be more restrictive on account of falling revenues. The solution was a better mix of policies in the industrial countries; better international policy co-ordination; reduction of trade barriers; more aid to LDCs; and a more active role for the Fund in securing international co-operation. Nourbakhsh (Iran) spoke on similar lines, observing that oil producers could not be blamed for the problems now confronting LDCs, and that improvements in the position of industrial countries had been substantially at the expense of LDCs.

15. Razaleigh (Malaysia) said that developing countries were caught in a vicious circle of sluggish industrial country demand and squeeze in their own economies, leading to the "spectre of world depression". Industrial countries were wishing adjustment upon the LDCs, but they must take their own medicine too. Pursuit of growth via reflation would be misguided, but there was excessive reliance on monetary policy in combatting inflation. This could be rectified by cutting fiscal deficits and thence interest rates. Virata (Philippines) pointed to an unsurprising similarity in the MD's comments at the last three meetings of the Committee. Co-operation was urgently needed to resist protectionism, particularly in agricultural markets; the Fund must do what it could to help members here.

16. Patel (India) said that the burden of adjustment placed upon developing countries was leading them to question the foundations of world economic co-operation. The policies of major industrial countries were adding greatly to LDCs' problems. He questioned too whether democratic communities could sustain such high rates of unemployment. There was a need for appropriate and concentrated

/policies

policies to bring about revival, to which the Fund could contribute through its surveillance role. Industrial countries needed to be more aware of the repercussions of their policies--e.g., cuts in development assistance hurt their exports. Industrial countries were raising trade barriers while at the same time insisting that LDCs reduce theirs. Shang (China) spoke in similar vein. He also contrasted the "drastic cutback of aid by one major country" (obviously the US) with "initiatives by some industrial countries to offer more aid" (presumably France). LDCs should co-operate more to help themselves.

17. Sambwa (Zaire) thought that prospects were dim for NODCs and pointed to the stagnation of African economies year after year. Major countries must aim at a better mix of policies and cease postponing difficult measures, and avoid protection. Magugu (Kenya) made similar points.

18. Langoni (Brazil) referred to progress on inflation, but said that it was being bought at high cost, particularly to developing countries. For some NODCs, interest payments were becoming a burden comparable to the cost of oil itself, but worse in the sense that it was quite outside their control. If banks would lend less restrictively, the adjustment process could occur at lower cost all round. As it was, great care would be needed to avoid a sharp interruption in the flow of private capital, which was the most important form of re-cycling. There was a danger of a vicious cycle of recession and debt-tightening. The Fund should resist reduction of its role to a lender of last resort. Alemann (Argentina) emphasised the problems created by high interest rates, which he attributed to past demand-induced inflation in major countries. The main need was for sound fiscal policies. He made no reference to Argentina's specific problems or to measures associated with the Falklands crisis.

19. Van Lennep (OECD) drew attention to the communique from the recent meeting of the Ministerial Council of OECD in Paris (PRESS/A(82)25, 11 May). The economic recovery due next year was mainly of a technical nature; the real question was whether private investment would revive in due course. Industrial

/countries

countries should intensify their efforts against inflation while reducing impediments to investment as individual circumstances required. On trade, the system had held up reasonably so far, given the extraordinarily rapid development of trade between OECD and LDC blocs, but the two sides would need to consider carefully how best to strengthen anti-protectionism.

Fund policies

20. The MD reported that his soundings had failed to reveal a consensus on SDR allocations in the Fourth Basic Period. He referred to the forthcoming Board discussion on the role of the SDR on 2 July.

21. Regan said it would be wrong to assume steady growth of the Fund's financing role. The key was promotion of adjustment and if this were successful the need for financing would be reduced. Fund finance should be confined more to a true stand-by basis. If the Fund were to develop as a financial intermediary the amounts of finance needed would be vast. He recognised the case for selective quota adjustment. Agreement was required on the principles of selectivity by which the Board should be guided. The basis should be economic criteria as applied to individual members, not blocks of countries. There were problems in including variability. The US would not accept a disproportionate reduction in its quota share, and it would not endorse the large numbers for Fund size implied in the staff's studies.

22. Mayekawa hoped that deliberations on the concrete form of the quota increase could commence soon. The increase should be large enough to provide for needs over a considerable period ahead. It had been agreed in the last three Committees that adjustments should reflect relative economic positions and meanwhile the disparities had grown. Selective increases based on calculated quotas were urgently needed. He did not see any case for SDR allocations at the present time, for there was currently no global shortage of liquidity.

23. Schulman confirmed that Germany's position on SDR allocations had not changed. It was too early to discuss figures for the size of the Fund. The Fund should

/remain

remain the centrepiece of the international monetary system and must be able to meet the legitimate needs of members; it should be more than a lender of last resort. But its leverage could be applied through operating as a catalyst for private financing, as well as through strengthening its own resources. The EAR policy had been a temporary response to the oil shocks; the need for it was now fading. The Fund could now focus increasingly on its traditional role, leaving new shocks to be dealt with by additional borrowing if necessary. Quota increases needed to reflect relative economic positions more accurately.

24. The Chancellor reaffirmed the UK's position on SDR allocations. On the size of the Fund, he was sceptical about some of the assumptions made so far. The Fund's existing functions should not be curtailed nor its policies re-oriented, but past relationships should not be extrapolated without regard to the financial environment. Resource needs were likely to be moderated by the effects of recent trends in oil prices, and the flow-back in the later 1980s of recently disbursed drawings. While a modest margin of quota-based resources should be available to cover unexpected calls, major contingencies should be met via the GAB or other borrowing from members, as appropriate. There was a case now for reviewing the GAB. On quota distributions, a balance should be struck between the need for reasonable stability and the need to reflect economic relativities. For the latter, a uniform systematic method of adjusting quotas should be sought: members should not expect special treatment.

25. Delors pointed to the emergence of financial distortions which were impeding the multilateral agencies from carrying out their functions. The total resources of the Fund had halved in relation to payments imbalances and to world foreign currency reserves in the last ten years. The balance between private capital markets and the Fund must be recreated; and the balance within the Fund between quotas and borrowing, restored.

26. Andreatta believed that the global liquidity position did not warrant SDR increases at present, but would reconsider in the light of developments. Borrowing

/to meet

to meet exceptional circumstances was acceptable but it should not become a permanent feature, for it would then undermine the co-operative nature of the Fund. Quotas needed to be restored as the basic source of Fund financing, on a scale that would enable its functions to be performed effectively.

27. De Clercq stressed the need to complete the Eighth Quota Review by the 1983 Annual Meetings. Van der Stee thought that imbalances might be greatly reduced on account of oil price trends. He favoured SDR allocations at SDR 4 billion per annum for two years and regretted that agreement had not been reached. Karjalainen supported a substantial increase in Fund size, large enough to reflect a decisive shift in the direction of calculated quotas. A uniform systematic method of distribution was needed. A case existed for regular SDR allocations and the deadlock ought to be resolved. MacSharry asked briefly for his statement to be put on the record.

28. Bruce, drawing on the G24 communique, advocated a programme of IMF reform embracing the adjustment process, surveillance, and the Fund's financing role. Quotas should be re-established as the primary source of financing and the SDR should become the principal reserve asset of the system. A substantial increase in quotas was required to meet members' needs. Confinement of the Fund to a lender of last resort would be against the Articles, which provided for countries to turn to the Fund in case of balance of payments need. Lending limits under the policy of Enlarged Access had already been lowered; further lowering before the Eighth Quota Review should be resisted. On quota distribution, the share of LDCs should be raised to 45 percent of the total. Despite having been made a more attractive asset, the SDR was declining as a proportion of world reserves. The view that further allocations would given an inflationary signal was "clearly contrived". SDR allocations at the rate of 12 billion per year in the Fourth Basic Period would contribute to a solution. If the political will for reform was absent, the survival of the Fund would be in question.

29. Developing country Governors endorsed the G24 Communique. Many mentioned the key numbers of 45 percent for LDCs' quota share and 12 billion for annual

/SDR

SDR allocations. Razaleigh described the attitude of major countries to SDR allocations as totally negative and asked them to reconsider. He could not accept a token increase in the size of the Fund. Patel maintained that a substantial increase in the Fund was easily justified, given the erosion of its real magnitudes. He was "greatly concerned" at the notion of making the Fund a lender of last resort. Selective increases in quotas should be confined to capital exporting countries. Countries which have the ability to create international reserves (through running payments deficits) should reconsider their attitude to SDR allocations. Shang felt that the Fund should strengthen its ability to finance payments deficits in view of the growing difficulties experienced by NODCs. The share of LDCs in the Fund should be increased. He regretted the stand of "a few major industrial countries" on SDRs. Abal-Khail and Al-Najafi warned against tampering with the quota formulae by picking on variability; this would call into question the whole structure of the calculations. Rendueles thought that doubling of quotas would be an adequate objective. Langoni argued that the Fund needed to play a larger financing role; sole reliance could not continue to be placed on the international banking system. An extension of SDR allocations at the rate of the Third Basic Period could by no stretch of the imagination be called inflationary. Reserve creation based on international borrowing might even become negative. SDR allocations would not dilute the quality of international reserves. Alemann too thought the system needed to rely less heavily on bank borrowing. Sambwa recalled that the WEO report predicted that NODCs' financing needs would remain large. He believed that SDR allocations must be substantial enough to restore the SDR/reserve asset ratio of the late 1970s. Magugu supported the G24 line.

30. FCO please pass saving to UKREP Brussels, UKDEL OECD and UKMIS Geneva.

TAYLOR

MONETARY
ERD

THIS TELEGRAM
WAS NOT
ADVANCED

CONFIDENTIAL

Pup

FROM: T BURNS
DATE: 17 FEBRUARY 1983

CHANCELLOR

cc. Sir D Wass
Mr Littler
Mr Byatt
Mr Middleton
Mr Unwin
Mr Cassell
Mr Odling-Smee
Mr Sedgwick
Mr Evans
Mr Kerr
Mr Lavelle
Mr Bottrill
Mr Allen

DISCUSSIONS IN WASHINGTON: FEBRUARY 1983

1. During discussions in Washington last week I attempted to gain some insight into the following issues:-

i. the alternative interpretations of monetary policy and the likely effects of the recent bulge of the monetary aggregates

ii. the prospect for recovery of output and whether the good inflation performance is sustainable

iii. the prospects for action on the Budget deficit and the implications of the prospective large deficits

iv. US views on the "margin for manoeuvre" arguments directed towards those countries with lower inflation.

A list of the visits made is attached as an annex.

Monetary Policy

2. There are two distinct views about the recent behaviour of the monetary aggregates. The "monetarists" (for example Brunner, Meltzer, Sprinkel and some at the AEI) argue that a large part of the monetary

growth in the latter part of 1982 was a genuine monetary impulse. They think that it will have the usual effect of boosting nominal GDP. They argue that the recent sharp velocity decline is a reflection of recession and the scale of the monetary injection; that it will be reversed, as it always has been in the past leading to higher inflation. On this interpretation the recent rise in the long term interest rates is a reflection of apprehension about inflation prospects.

3. The "Fed" view which seems to be largely supported by Feldstein is that the monetary aggregates recently have been dominated by special factors reflecting institutional change and intermediation. The change in velocity is large and might be sustained. Disinflationary pressures are strong and it was right to take a risk with the monetary aggregates. It is argued that it was important that after the Fed allowed short term rates to fall long rates also fell so confirming the legitimacy of the move. This is what happened initially. Recently there has been some upward drift of long rates suggesting that possibly interest rate reductions have gone far enough for the moment.

4. There is little doubt that US monetary policy is in considerable disarray. The Fed have been moving to wider aggregates without success. I am inclined to accept a good part of the Fed argument which implies that velocity change last year resulted in US monetary policy being considerably tougher than intended. We have experienced similar problems with £M3 over the past 3 years.

5. The problem for the US authorities now is to find something to put in its place. In the UK we were able to take refuge in the "range of monetary indicators" presentation but in our case the narrow aggregates were growing slowly at that point and have remained either within or below the target ranges. The US are heading for trouble with all the aggregates. The UK monetary problems were also eased because of the clear progress that was being made on the budget deficit. In the US the position is still the reverse with the budget deficit worsening. Mr Middleton has pointed out the great risks involved in concentrating on wider aggregates at a time when fiscal policy is getting further out of hand.

6. Yesterday Volcker rebased and increased the targets but there can be no confidence that he will stick to them. They now have a difficult task of re-establishing some credibility in monetary policy. Their policy is now pinned on continuing success against inflation. If that remains under control they may be able to ride out the current confusion. But if it picks up, for example because of a sharp dollar depreciation it will be difficult to avert a further tightening of policy.

7. For the moment there seems to be some determination on the part of the Fed to avoid any significant increase in short term interest rates. They point to very high real interest rates at present, particularly on an after tax basis. At the same time they acknowledge that possibly they have been leading the market too rapidly towards lower short term rates.

8. For the moment the "monetarists" seemed to be gagged in public as the President has indicated that he is entirely content with Fed behaviour. But they may not remain silent and leaks indicating dissent are already emerging. It must be very difficult for those like Sprinkel who have these doubts about the conduct of monetary policy.

Output and inflation

9. These differences on monetary policy are reflected in views about recovery and inflation prospects.

10. It seems to be agreed that recovery is on the way. The differences of view relate largely to its timing and strength.

11. The optimistic group are talking of 5 or 6% growth through the year. This is based on an acceleration of monetary aggregates, a rising level of final demand and recent heavy destocking which is expected to be reversed or at least come to an end.

12. Those being more cautious point out that so far, apart from yesterday's industrial production figures, there is no hard evidence of recovery and optimistic expectations have had to be revised several times over the past six months. They acknowledge that the employment statistics point in the right direction but there are some ambiguities there also.

13. The group that is most worried about monetary growth are most optimistic on output but are also most concerned about inflation and inflationary expectations.

14. But there are some very optimistic inflation figures around. For example the Fed are looking for inflation in the 3-4% range. It is argued that although there has been some benefit this year from commodity prices, food prices and lower interest rates which will not be repeated there could be strong downward pressure continuing from lower energy prices and lower labour costs as earnings growth slows and productivity improves. Recently the US has been experiencing better than expected productivity figures in a way reminiscent of our own experience.

15. I was impressed by the strength of opinion about the imminent upturn and clearly there are some good arguments - particularly from lower interest rates and the recent scale of destocking. But we have seen in our own case the difficulty involved in sustaining pick up against the background of high real interest rates, poor profitability and cost competitiveness and weak overseas markets. Of course in the UK we have had the problem of world recession to cope with while domestic demand has been recoverying. The US should not have as big a problem but the difficulties of the LDC debtor countries could provide an echo of that effect. On the same comparison the US could continue to make impressive progress against inflation.

16. From our point of view we must hope that Volcker is correct. A US recovery at about 4% a year combined with further downward pressure on inflation is a very convenient message. I would go part of the way with them but there is a significant risk of further interest rate and exchange rate instability in the US if the economy turns around too fast.

Budget Deficit

17. The Budget deficit remains a big talking point. Everyone I spoke to was clearly alarmed. The prospect is for a deficit of 6% of GDP; over time a larger proportion of this deficit is "structural" rather than "cyclical".

18. The worries are

i. high prospective Budget deficits could damage current activity by increasing real interest rates now

ii. high real interest rates damage investment and the balance between sectors

iii. it is likely to increase the real exchange rate putting pressure on mature industries and thus creating demands for increased protection.

19. I sensed a strong determination to try to do something about the Budget deficit but no real consensus about the particular measures that should be taken. The Congressional Budget Office is looking for an end to the indexation of tax thresholds, some reduction of spending programmes (including defence) and higher indirect tax. (The introduction of a VAT, mentioned in some quarters, was considered unlikely as the collection system does not exist at the moment.)

20. It is important to keep the pressure on the US about their deficit. But once it becomes a matter of deciding between a list of options it becomes more difficult for outsiders to make an impact.

Margin for Manoeuvre

21. I spent some time with Feldstein discussing the pressure from some countries and international organisations for the US and UK, along with others, to take advantage of lower inflation to stimulate their domestic demand.

22. I argued that in terms of our own MTFS lower inflation was likely to leave room within the framework for higher output. But that was expected to emerge automatically by sticking to the existing guidelines and did not imply "reflationary" action by government. Having successfully reduced inflation this was not the time to reverse policies and attempt to achieve convergence by regressing towards the mean of inflation in the industrial countries.

23. Feldstein wholly agreed although he recognised the pressure at the Summit to be seen to be taking action. I argued that it was important to convince other countries of the way in which recovery was expected to emerge within the framework of these policies. A discussion of this kind could be helpful in improving understanding of the policies being pursued in both our countries.

T BURNS

ANNEX

VISIT TO WASHINGTON - FEBRUARY 1983

Sprinkel	(US Treasury)
Klein	(Wharton Econometrics)
Fellner, Stein and Penner	(American Enterprise Institute)
Pechman and Perry	(Brookings Institute)
Rivlin	(Congressional Budget Office)
Axilrod and Kichline	(Federal Reserve Bank)
Feldstein	(Council of Economic Advisers)

Press Release NO. 83/11

FOR IMMEDIATE RELEASE
February 11, 1983

Press Communiqué of the Interim Committee
of the Board of Governors of the
International Monetary Fund

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its twentieth meeting in Washington, D.C., on February 10 and 11, 1983, under the chairmanship of Sir Geoffrey Howe, Chancellor of the Exchequer of the United Kingdom. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The meeting was also attended by observers from a number of international and regional organizations and from Switzerland.

2. The Committee discussed the World Economic Outlook and the policies needed to cope with the difficult problems faced by most members of the Fund.

The Committee noted that estimated rates of both growth of output and inflation had been revised downward since its previous meeting in September 1982. Anxiety was expressed at the high level of unemployment and the weakness of investment and world trade, against the background of only limited indications of economic recovery. At the same time, the Committee welcomed the further progress made by some of the larger industrial countries in their fight against inflation, as well as the reduction in interest rates that had been facilitated by this progress--developments that were providing the basis for a sustainable recovery in economic activity.

Believing that successful handling of the inflation problem is a necessary--albeit not sufficient--condition for sustained growth over the medium term, the Committee urged national authorities, in their efforts to promote sustained recovery, to avoid measures that might generate harmful expectations with regard to inflation. The importance of reducing fiscal deficits in a number of countries was also emphasized. Otherwise, the Committee noted, high real interest rates detrimental to the process of recovery could be generated by market expectations regarding government borrowing requirements.

It was the Committee's view that, in several major industrial countries where inflation remained relatively high, present circumstances called for continued restraint in monetary and fiscal policies, along with effective implementation of the incomes policies now in place. It was felt, however, that conditions for economic recovery had improved in those large industrial countries that have been able

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to achieve the greatest measure of success in reducing and controlling inflation. This success--and the reduction in interest rates that it has permitted--provided the basis, within the pursuit of counter-inflationary monetary and fiscal policies, for greater real growth of activity. The transition to a more stable path of real growth would be further facilitated by determined efforts to reduce market rigidities and structural imbalances.

The Committee deplored the upsurge of protectionist pressures in the past year or two. It stressed the paramount importance of resisting these pressures and, indeed, rolling them back.

The unsatisfactory situation facing non-oil developing countries was a source of particular concern to the Committee, which noted that growth rates in these countries, after averaging about 6 per cent in the 1960s and early 1970s, had averaged only 2 1/2 per cent during the past two years and were not expected to show much improvement in 1983. The Committee also observed that the modest recent increases in output, which were barely sufficient to keep pace with rapid population growth, had been achieved against a background of deteriorating terms of trade, sluggish markets for exports, high interest rates in international financial markets, and strains in the financing of current account deficits. These conditions had necessitated a sharp compression of imports by the non-oil developing countries--which, in turn, had been achieved at the cost of lower investment and growth.

Noting the extent of the external adjustment already achieved by many non-oil developing countries and the uncertainties that most such countries face in financing their current account deficits, the Committee attached great importance to the continuing provision of both official development assistance and private banking flows on an adequate scale, and it welcomed the special role recently played by the Fund in this connection.

More generally, the Committee stressed the enhanced importance, in current circumstances, of the Fund's role in providing its balance of payments assistance to member countries that engage in adjustment programs and in exercising firm surveillance over policies, and also the need to equip the Fund with adequate resources to perform this role.

3. The Committee, noting the progress made by the Executive Board on the various issues of the Eighth General Review of Quotas, focused its attention on the remaining issues, and took satisfaction in being able to reach the following agreement on the subject of quotas:

(a) The total of Fund quotas should be increased under the Eighth General Review from approximately SDR 61.03 billion to SDR 90 billion (equivalent to about US$ 98.5 billion).

(b) Forty per cent of the overall increase should be distributed to all members in proportion to their present individual quotas, and the balance of sixty per cent should be distributed in the form of selective adjustments in proportion to each member's share in the total of the calculated quotas, i.e., the quotas that broadly reflect members' relative positions in the world economy.

(c) Twenty-five per cent of the increase in each member's quota should be paid in SDRs or in usable currencies of other members.

The Committee considered the possibility of a special adjustment of very small quotas, i.e., those quotas that are currently less than SDR 10 million. It was agreed to refer this matter to the Executive Board for urgent consideration in connection with the implementation of the main decision.

4. The question of the limits on access to the Fund's resources was raised in the Committee. It was noted that the Executive Board will review this matter before June 30, 1983. The Committee invited the Executive Board to take note of the views expressed in the Committee by those favoring maintenance of the present enlarged limits in terms of multiples of quotas and also by those stressing the need to have regard to developments in the Fund's liquidity. It also invited the Managing Director to report on this matter at the next meeting of the Committee.

5. The Committee noted the recent decision of the Finance Ministers and Central Bank Governors of the participants in the General Arrangements to Borrow (GAB) to support an increase in the total amount of the commitments under these Arrangements to SDR 17 billion (equivalent to about US$19 billion) and to make the resources of these Arrangements available to the Fund to finance also purchases by nonparticipants when the Fund faces an inadequacy of resources arising from an exceptional situation involving a threat to the stability of the international monetary system. In this connection, the Committee welcomed the intention of Switzerland to become a full participant in the Arrangements, through the Swiss National Bank, with a credit commitment of SDR 1,020 million.

The Committee also welcomed the willingness of Saudi Arabia to provide resources to the Fund, in association with the GAB, and for the same purposes as those of the GAB. They noted with satisfaction the progress that is being made in setting out the detailed features of this association.

6. The members of the Committee requested the Executive Board to adopt, before the end of February 1983, the necessary decisions and other actions to implement the consensus reached in the Committee. They also agreed to urge the governments of their constituencies to act promptly so that the proposals for the increase in the Fund's resources could be made effective by the end of 1983.

7. The Committee considered again the question of allocations of SDRs in the current, i.e., the fourth, basic period which began on January 1, 1982. Noting the developments since its Toronto meeting, the Committee agreed that the matter should be reexamined as soon as possible. It, therefore, requested the Executive Board to review the latest trends in growth, inflation and international liquidity, with a view to enabling the Managing Director to determine, not later than the next meeting of the Interim Committee, whether a proposal for a new SDR allocation could be made that would command broad support among members of the Fund.

8. The Committee agreed to hold its next meeting in Washington, D.C., on September 25, 1983.

INTERIM COMMITTEE ATTENDANCE

February 10-11, 1983

Chairman

Sir Geoffrey Howe, Chancellor of the Exchequer of the United Kingdom

Managing Director

J. de Larosière

Members or Alternates

Mohammad ABAL-KHAIL, Minister of Finance and National Economy of Saudi Arabia
Mohamed FINAISH, Executive Director of the Fund (Alternate for Hassan Al-Najafi, Governor of the Central Bank of Iraq)
Rachid BOURAOUI, Governor of the Banque Centrale d'Algérie
B. T. CHIDZERO, Minister of Finance of Zimbabwe
Willy DE CLERCQ, Vice Prime Minister, Minister of Finance, and Minister of Foreign Trade of Belgium
Jacques DELORS, Minister of Economy and Finance of France
Ernane GALVEAS, Minister of Finance of Brazil
Giovanni GORIA, Minister of the Treasury of Italy
Cesar E. A. VIRATA, Prime Minister and Minister of Finance of the Philippines (Alternate for John W. Howard, Treasurer, Australia)
Marc LALONDE, Minister of Finance of Canada
J. G. LITTLER, Second Permanent Secretary of H. M. Treasury of the United Kingdom
SHANG Ming, Adviser at Vice President Level of the People's Bank of China (Alternate for Lu Peijian, President of the People's Bank of China)
Manmohan SINGH, Governor of the Reserve Bank of India (Alternate for Pranab Kumar Mukherjee, Minister of Finance of India)
Jõhannes NORDAL, Governor of The Central Bank of Iceland
Nukul PRACHUABMOH, Governor of the Bank of Thailand
Donald T. REGAN, Secretary of the Treasury of the United States
H. O. C. R. RUDING, Minister of Finance of the Netherlands
SAMBWA Pida Nbagui, Governor of the Banque du Zaïre
Jesús SILVA-HERZOG, Secretary of Finance and Public Credit of Mexico
Gerhard STOLTENBERG, Federal Minister of Finance of Germany
Haruo MAYEKAWA, Governor of The Bank of Japan (Alternate for Noboru Takeshita, Minister of Finance of Japan)
Jorge WEHBE, Minister of Economy of Argentina

Observers

A. W. Clausen, President, IBRD
Arthur Dunkel, Director-General, GATT
A. Ferroukhi, Head, Economics and Finance Department, OPEC

Observers (continued)

Ghulam Ishaq Khan, Chairman, Development Committee
Roger Lawrence, Director, Money, Finance, and Development Division, UNCTAD
Emile van Lennep, Secretary-General, OECD
F. Leutwiler, Chairman of the Governing Board, Swiss National Bank
Francois-Xavier Ortoli, Vice-President, CEC
Jean Ripert, Director General for Development and International Economic Cooperation, UN
Guenter Schleiminger, General Manager, BIS