

PO/CH/NL/710
Part A

PO/CH/NL/710
Part A

AFRICA

73-10-89



OFFICE OF THE MINISTER OF FINANCE
AND PUBLIC SERVICE

30 NATIONAL HEROES CIRCLE,
P.O. BOX 512,
KINGSTON,
JAMAICA

793/02
TELEPHONE No. 92-28600-16

11th May, 1989

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
H M Treasury
Great George Street
London SW1
England

My dear Colleague,

I am very pleased to inform you that the 1989 meeting of Commonwealth Finance Ministers will be held in Jamaica on 20-21 September, 1989. It will be preceded, as usual, by the Meetings of the Board of Representatives of the Commonwealth Fund for Technical Cooperation and Commonwealth Senior Finance Officials on 19 September.

I hope it will be possible for you to attend the Meeting personally. I expect that this year's meeting will again allow us to exchange views frankly on key international economic issues and will help us in our preparations for the Annual Meetings of the IMF and World Bank which will be held in Washington the week following our meeting. We will also have to decide how to take forward the proposal for a Commonwealth Equity Fund, agreed upon at our last meeting, in Cyprus.

On behalf of the Government of Jamaica, I am pleased to indicate that my Government will assume the cost of accommodation for each Head of Delegation and accompanying spouse.

I look forward to meeting you in Jamaica and would appreciate confirmation of your attendance at your earliest convenience.

Yours sincerely,

J/S
25/5

Seymour E. Mullings
Minister of Finance
and the Public Service

CH/EXCHEQUER	
REC.	25 MAY 1989
ACTION	MR H.P. EVANS
COPIES TO	EST SIR T. BURNS.
	MR WICKS
	MR LANCASTER
	MR WALSH
	MR THORPE

covering CONFIDENTIAL

FROM: MRS D LESTER (IF1)
DATE: 4 JULY 1989
EXT: 4887

1. MR WALSH ^{H.W.} 5/7
2. PS/CHANCELLOR*

cc: Mr Wicks*
Mr Evans
Mr Mountfield
Mr R I G Allen*
Mr Melliss*
Mr Tarkowski

**COMMONWEALTH HEADS OF GOVERNMENT MEETING: KUALA LUMPUR: 18-24
OCTOBER 1989**

Stephen Wall's letter of 23 June to Charles Powell (attached for those shown) contains a draft reply for the Prime Minister to send to Sir Sonny Ramphal, Commonwealth Secretary-General about the proposed agenda for CHOGM.

2. The draft reply is fairly anodyne on the areas of Treasury interest: we are encouraged by the resilience of the world economy but emphasise the need to control inflation; welcome EC's commitment to the Single Market; reiterate firm commitment to open multilateral trading environment and importance of successful Uruguay Round; welcome the concept of a privately-financed Commonwealth Equity Fund which will be discussed in detail at the meeting of Commonwealth Finance Ministers in September; on debt it is proposed to welcome the inclusion of debt reduction in the debt strategy.

3. There is no need to intervene.

H. G. Walsh

pp. MRS D LESTER

* with attachment

covering CONFIDENTIAL



FROM: J M G TAYLOR

DATE: 6 July 1989

A large, stylized handwritten signature in black ink, likely belonging to J M G Taylor.

MRS D LESTER (IF1)

cc Mr Wicks
Mr Evans
Mr Mountfield
Mr R i G Allen
Mr Walsh
Mr Melliss
Mr Tarkowski

COMMONWEALTH HEADS OF GOVERNMENT MEETING: KUALA LUMPUR: 18-24
OCTOBER 1989

The Chancellor was grateful for your note of 4 July.

A smaller handwritten signature in black ink, likely belonging to J M G Taylor.

J M G TAYLOR



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

CH/EXCHEQUER	
REC.	12 JUL 1989
ACTION	MR MELLESS
COPIES TO	PS/EST
	MR WICKS
	MR HP EDWARDS
	MR PGF DAVES
	MR WESTWATER
	MR EDWARDS

✓12/7

11 July 1989

*Re X, still under
 Drick who
 a sharp number
 was right.*

Dear Stepler,

PRIME MINISTER'S MEETING WITH THE PRIME MINISTER OF CANADA

The Prime Minister had an hour's talk this afternoon with Mr Mulroney. He was accompanied by the Canadian High Commissioner and Mr. Stanley Hartt, his Chief of Staff.

Economic Summit

After some exchanges about televising Parliament, Mr Mulroney asked what the Prime Minister expected to be the main issues at the Economic Summit. The Prime Minister said that it would be necessary to reaffirm the standard economic virtues. We must get the strongest possible commitment against protectionism and to completion of the Uruguay Round by the end of 1990. She was rather despairing about how best to tackle Germany and Japan on structural reform and reduction of their trade surpluses. She had tried everything in recent years but nothing seemed to work. Mr Mulroney asked whether President Mitterrand was likely to spring a surprise in the form of a North/South initiative. The Prime Minister said that he might well do so, in which case we would simply have to knock it out. All experience showed that high level North/South dialogue did not work, but simply got in the way of substantive progress. The approach adopted on debt and other developing country issues at the Toronto Economic Summit had been exemplary. Individual issues should be handled in the institutions designed to deal with them. Environmental issues should be given prominence at the Summit, but we should reinforce existing institutions rather than create new ones. Mr Mulroney said that he could agree with that. His only comment was that he would find it helpful to have some instrument to rank or measure countries environmental performance. The Prime Minister commented that she thought there was something of this sort already in the OECD, although it operated with a considerable time lag.

Commonwealth Secretary General

The Prime Minister asked where matters stood on the Commonwealth Secretary General post. Mr Mulroney said that Canada remained firmly on the fence (his subsequent comments

X

showed that in practice they do not). His top priority was to avoid a black/white confrontation. He had discussed with several Commonwealth Heads of Government the possibility of extending Ramphal's term but had run into a brick wall. For instance, Miss Charles had been very strongly opposed, saying that Commonwealth expenditure was entirely out of hand due to Ramphal who was incapable of running a two car funeral. She was for Malcolm Fraser. Manley would probably accept Ramphal. Kenneth Kaunda was showing some signs of backtracking on his earlier support for Fraser. Mr Mulroney continued that he had met Mr Fraser at Mr Hawke's request. Fraser had said that he fully recognised the subordinate nature of the job and would not try and act as a Head of Government if he was chosen.

Mr Mulroney concluded that he did not think that Ramphal had much of a chance and he was now leaning toward Malcolm Fraser rather than Anyaoku. But he was worried what would happen if Canada supported Fraser and he was unable to secure a majority. Bob Hawke had promised him that, in these circumstances, he would withdraw Fraser's candidature before it came to a decision. The Prime Minister asked if Mr Mulroney knew Rajiv Gandhi's position. Mr Mulroney said he did not. It was agreed that he and the Prime Minister would both talk to Rajiv Gandhi while in Paris.

Hong Kong

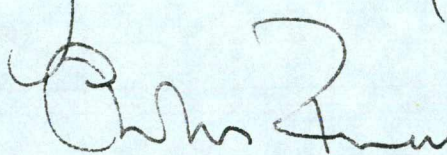
Mr Mulroney said he would be making what was intended to be a helpful statement on Hong Kong in his speech to the Canadian Club in the evening. Canada felt directly concerned: she had taken 23,000 immigrants from Hong Kong last year. He wondered whether the Prime Minister would be looking for a strong statement on Hong Kong from the Summit. He would be prepared to take the initiative in raising the issue if we would find that useful. He had a number of ideas. For instance, would it be possible to establish a special international identity for Hong Kong which would give it added protection after 1997? Would it be helpful to allow Hong Kong to establish an office in Canada with its own rights and communities?

The Prime Minister said she was grateful for these suggestions. She thought it would indeed be helpful if Canada were to take the lead in Paris. We would certainly be looking for a statement which should emphasise the vital importance of keeping to the Joint Declaration and the need for action to re-establish confidence in Hong Kong. On the immigration aspects, we would find it helpful if countries devised a way of giving Hong Kong people the assurance of right of abode which they need not exercise immediately, so that their talents remained available to Hong Kong. We would also be seeking the strongest possible assurance from the largest number of countries that, in the event that China did not live up to its obligations and there was a massive breakdown of confidence in Hong Kong after 1997, they would do everything possible to help those who wanted to leave. But this was not necessarily to be addressed at the Summit. She

would ask the Foreign Secretary to discuss these points with Mr Clark.

The Prime Minister added that she hoped that South Africa would not be an issue at the Summit (Mr Mulroney did not demur) but it would probably be necessary to deal with the Middle East and East/West relations.

I am copying this letter to Alex Allan and Nigel Wicks (HM Treasury), Colin Walters (Home Office), Neil Thornton (Department of Trade and Industry) and Brian Hawtin (Ministry of Defence).

Your sincerely,


Charles Powell

Stephen Wall, Esq.,
Foreign and Commonwealth Office.



FROM: J M G TAYLOR

DATE: 13 July 1989

67. 20/7

MR WICKS

cc PS/Economic Secretary
Mr H P Evans

COMMONWEALTH SECRETARY GENERAL

The Chancellor has seen Charles Powell's letter of 11 July, recording the Prime Minister's meeting with the Prime Minister of Canada.

2. He has noted the discussion of the Commonwealth Secretary General post. He wonders why Chidzero - a stronger runner than Anyaoku - was rejected. I should be grateful for advice.

JMG

J M G TAYLOR

RESTRICTED

FROM: N L WICKS
DATE: 19 JULY 1989
Ext : 4369

CHANCELLOR OF THE EXCHEQUER

cc EST
Mr H P Evans

COMMONWEALTH SECRETARY GENERAL

Your Private Secretary asked for advice, in his minute of 13 July, about the candidature of Chidzero for the post of Commonwealth Secretary General.

2. The FCO tell me that Chidzero was a potential runner at an early stage, and indeed expressed some interest in the job. We hoped that his name would come forward since he was just the sort of candidate that we could support. But in the end President Mugabe made clear that he would not be willing to see him relinquish his post as Finance Minister. His candidature therefore never got off the ground.

N.L.W.

N L WICKS

RESTRICTED



FROM: J M G TAYLOR
DATE: 20 JULY 1989

A handwritten signature in blue ink, appearing to be "JMG".

MR WICKS

cc PS/Economic Secretary
Mr H P Evans

COMMONWEALTH SECRETARY GENERAL

The Chancellor was grateful for your note of 19 July.

A handwritten signature in blue ink, appearing to be "JMG".

J M G TAYLOR



TELEX-CHEQUER	
25 JUL 1989	
Mr MOUNTFIELD	
TO	PS/EST SIC P. MIDDLETON
	Mr WICKS, Mr H.P. EVANS,
	Mr BOTTRILL, Mr BROWN

Foreign and Commonwealth Office.

London SW1A 2AH

24 July 1989

Jan Charles

Zambia

Discussions have been taking place in recent weeks between the Zambian authorities and staff of the IMF and World Bank on the measures needed to establish an economic reform programme. A Policy Framework Paper has been agreed (ad referendum to the Boards of the IMF and IBRD) and, on 30 June, a number of economic decisions were announced by President Kaunda. This was shortly followed by the despatch from Lusaka of Presidential emissaries to the capitals of all major bilateral donors, bearing letters from the President.

Mr Nkhata, Senior Permanent Secretary in the Ministry of Finance, came to London two weeks ago. He delivered the enclosed letter of 6 July from President Kaunda to the Prime Minister. When he called at the ODA he explained the background to the discussions with the international financial institutions, described the measures recently taken and asked for immediate financial assistance, noting the civil disturbances that had taken place on the Copperbelt the previous week.

In parallel pressure has been mounting, principally from the IMF, for Britain to take the lead in establishing and running a Support Group for Zambia, along the lines of the Group the Canadians ran for Guyana. The objective would be to stimulate both major and minor donors to make sufficient financial contributions to fill the estimated financing gap and, more important from the IMF's standpoint, to identify solutions to Zambian debt arrears of which around \$950 million are owed to the Fund alone.

We are faced with some difficult decisions, not only about chairing a Support Group but about participating at all. We cannot play any sort of a role unless we are ready to put up additional resources for Zambia; on any realistic scenario these are bound to be substantial. Even if additional funds can be found, the problem will be

/formidable

JG



formidable; Zambia has one of the highest debt/GDP burdens in the world, and it has a poor history of sustaining a credible economic reform programme. But they have made a start. It is almost inconceivable that an international rescue package could succeed without UK participation.

The arguments for chairing a support group may be summarised as follows. We have an interest in sorting out Zambia's substantial arrears to the Fund. We also want to continue to encourage sub-Saharan African countries to pursue IMF-supported economic reform programmes. A Support Group, to which we should have to contribute, will probably be set up anyway and it might be to our advantage to guide it from the start as Chairman. The role of Chairman would gain us political credit with Southern African countries.

Against that, the programme has a high probability of failure; there is little evidence yet that the Zambians will stay the course of reform. And there is bound to be an extra contribution stemming from chairmanship, as well as administrative costs, in addition to what we would have to find simply as a member of a support group.

The Foreign Secretary's view is that we need to make progress on two fronts before we can take any decision on this.

- First, we shall need to discuss with the Treasury the scale of any additional resources that Britain would need to be ready to make available. These could not be found from within the existing plans for aid.
- Second, we need more assurance that an adequate reform programme is being established, that there is the will and capacity to see it through, and that a programme is likely to attract appropriate international support.

I attach a draft letter for the Prime Minister to send to President Kaunda. This is supportive in tone but underlines the need for a strong programme. I am sending a copy of this minute and the draft letter to Alex Allan (HM Treasury).

Yours ever

R N Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street



*State House
Lusaka, Republic of Zambia*

6th July, 1989

My Dear Prime Minister,

I am sending my Senior Permanent Secretary, Ministry of Finance and National Commission for Development Planning, Comrade L. Nkhata, to deliver this letter personally to Your Excellency as the message is very urgent after the introduction of further economic measures which I announced on 30th June, 1989 which include:-

1. devaluation by 60% in addition to the 25% devaluation which we undertook in November last year, and the rate will be kept under constant review;
2. decontrol of prices of all goods and services, except the staple food, maize meal; and
3. upward adjustment of interest rates by 10 percentage points, from 25-35 as maximum lending rate.

I have written to brief you on the Zambian economy and to ask you to help Zambia with very urgent financial assistance by way of balance of payment support, required to raise the level of supply of goods and services in the country. Your assistance in this respect will be deeply appreciated.

/...

The Rt. Hon. Margaret Thatcher, MP
Prime Minister,
10 Downing Street,
LONDON SW1A 2AA.
UNITED KINGDOM.



2.

We are very grateful for the generous assistance your great country continues to render to the people of Zambia in many ways. As you will recall, Zambia introduced its own Economic Recovery Programme in May, 1987 in place of the IMF and World Bank sponsored programme. Zambia has since implemented the programme firmly and continues to do so. We have not hesitated to make necessary economic adjustments and we can say we have achieved considerable success in a number of sectors although I must say that some sectors have not done well.

In 1987, when the New Economic Recovery Programme was introduced, the Gross Domestic Product grew by 2.2% in real terms. This has risen to 6.7% in 1988 with agriculture growing at 21% and the manufacturing sector at 15%.

The significant growth in agriculture is attributable to incentives the Party and its Government have put in place such as increased producer prices, timely provision of inputs, availability of credit and foreign exchange, adequate provision of extension services and improved marketing. Good weather conditions complemented the efforts of the farmers. In the short period, Zambia has moved from a maize deficit country to a surplus and net exporter of maize.

However, notwithstanding these encouraging developments, there continues to be a number of problems militating against a sustained economic recovery and diversification of the economy. Unemployment has remained high, inflation is very high and the latest estimates for 1988 put inflation at about 70% compared to 60% in 1987.

/...



3.

Madam Prime Minister, Zambia continues to take corrective measures in order to stabilize the economy and I am happy that both the IMF and the World Bank have recognised this aspect and are now supporting Zambia's economic adjustment efforts. In this regard, it pleases me to inform you that Zambia has reached agreement on a Policy Framework Paper with the IMF and World Bank.

However, in order to achieve the economic objectives which we have set for ourselves, we need urgently, financial assistance, in particular import support to strengthen the measures that we are taking. We also need resources to cushion the vulnerable members of our society who are courageously shouldering the burdens of economic reform, especially by enhancing the existing rural credit schemes and extension services.

Yours sincerely,

16

Kenneth D. Kaunda
PRESIDENT OF THE REPUBLIC OF ZAMBIA



Revised Sept 85)

DRAFT: minute/letter/teleletter/despach/note

TYPE: Draft/Final 1 +

FROM:
The Prime Minister
DEPARTMENT:

TEL NO:

Reference

BUILDING:

ROOM NO:

Your Reference

SECURITY CLASSIFICATION

TO:

Copies to:

Top Secret
Secret

President Kenneth Kaunda

Confidential

Restricted

Unclassified X

SUBJECT:

PRIVACY MARKING

Thank you for your letter of 6 July which your Senior Permanent Secretary in the Ministry of Finance, Mr Nkhata, brought to London last week.

..... In Confidence

CAVEAT

We follow closely economic developments in Zambia, as you know. I am grateful to you for bringing me up to date on the measures that you have recently introduced. These are important steps on the way to economic recovery and I note in particular that Zambia is now a net exporter of maize to the region.

We shall of course play our part in an international effort to support a programme of economic reform in Zambia, on the basis of proposals agreed by the Boards of the IMF and the World Bank. The Policy Framework Paper you have agreed with the staff of the international financial institutions is a helpful further step in this process and we shall expect to make a positive contribution to the discussions that will take place in preparation for the eventual Board meetings, including the World Bank donors' meeting in Paris on 28 July.

I am sure you will agree that it is essential for the economic programme being put in place to be sustainable. I am acutely aware of the political and social constraints that you have to take into account. Nevertheless, as we have seen with other countries in sub-Saharan Africa and farther afield, tough

/measures have

Enclosures flag(s)

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

PRIVACY MARKING

.....

In Confidence

measures have to be introduced and maintained if a real basis for long term development is to be successfully established. The volume of finance needed to sustain a programme in Zambia would be very considerable, in addition to the measures needed to resolve the difficulties arising from your country's immense debt arrears. A strong programme is therefore in the interests of both the Zambian authorities and people and of Zambia's international friends.

I very much hope that comprehensive agreement on the way ahead will be reached as soon as possible.

FROM: C R PICKERING (CF1)
DATE: 26 JULY 1989

CHANCELLOR

cc Mr Wicks
Mr Evans
Mrs Lomax
Mr Mountfield
Mr Davis
Mr Bottrill
Mr Lazar
Mr Kilpatrick o/r
Mr Tarkowski
Mr Barr

*Ch
Content?*

*OK as
by Mr. - 27/7*

ZAMBIA

The PS/Foreign Secretary letter of 24 July to no 10 goes over the arguments for and against chairing a support group for Zambia, drawing on the paper agreed by HMT, FCO/ODA and Bank which Mr Walsh showed you last week. It also encloses a draft letter for the Prime Minister to send to President Kaunda. The draft is broadly acceptable. It begins with the diplomatic niceties and emphasises the need for a strong programme of reform.

2. However the third paragraph goes further than seems desirable in endorsing the Policy Framework Programme agreed with the Fund staff. ODA believe, and we agree, that the Zambians will need to put in place a much tougher and more specific programme than the PFP implies. The first sentence of paragraph 3 also seems a little more positive than is justified at this stage.

3. I attach a draft letter, which suggests a redraft. The redraft has been agreed with Mr Evans, ODA and the FCO.

CRP

C R PICKERING

DRAFT LETTER

Pre type final.

FROM: PS/CHANCELLOR
TO: PS/PRIME MINISTER
CC: PS/FOREIGN SECRETARY

ZAMBIA

I have seen Bob Peirce's letter to you of 24 July. The Chancellor agrees in general with the draft letter to President Kaunda - particularly the emphasis on the need for a strong programme of economic reform - but thinks that the third paragraph should be worded a little more cautiously, while we are studying the Policy Framework Paper and preparing for the forthcoming discussions by the Boards of the IMF and the World Bank:

"We look forward to constructive discussions of the Policy Framework Paper at the World Bank meeting in Paris on 28 July and at the IMF and World Bank Board meetings later in the year. Bilateral and multilateral support on the basis of proposals agreed by the Boards of the IFIs will of course be essential and I am sure you will agree that to secure such support the reform programme being put in place will need to be both strong and sustainable."

I am copying this letter to Bob Peirce.

ZMGT-

The first sentence of the fourth paragraph could then be deleted.



cc Mr Wicks
Mr H P Evans
Mrs Lomax
Mr Mountfield
Mr Davis
Mr Bottrill
Mr Lazar
Mr Kilpatrick
Mr Pickering
Mr Tarkowski
Mr Barr

Treasury Chambers, Parliament Street, SW1F
01-270 3000

28 July 1989

A large, stylized handwritten signature in black ink, likely belonging to the Chancellor of the Exchequer.

C D Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 0AA

Dear Charles

ZAMBIA

I have seen Bob Peirce's letter to you of 24 July. The Chancellor agrees in general with the draft letter to President Kaunda - particularly the emphasis on the need for a strong programme of economic reform - but thinks that the third paragraph should be worded a little more cautiously, while we are studying the Policy Framework Paper and preparing for the forthcoming discussions by the Boards of the IMF and the World Bank :

"We look forward to constructive discussions of the Policy Framework Paper at the World Bank meeting in Paris on 28 July and at the IMF and World Bank Board meetings later in the year. Bilateral and multilateral support on the basis of proposals agreed by the Boards of the IFIs will of course be essential and I am sure you will agree that to secure such support the reform programme being put in place will need to be both strong and sustainable."

The first sentence of the fourth paragraph could then be deleted.

I am copying this letter to Bob Peirce.

Yours sincerely
J M G Taylor

J M G TAYLOR
Private Secretary

1990
CFM



Foreign and Commonwealth Office
London SW1A 2AH

From The Minister of State

CH/EXCHEQUER	
R:	24 AUG 1989
EST Mr WICKS	
Sir P. MIDDLETON	
Mr H.P. EVANS	
Mr A.C.S. ALLAN	

✓
25/8

23.viii.89

Chancellor of the Exchequer

1990 COMMONWEALTH FINANCE MINISTERS' MEETING

In the margins of Cabinet last month, Geoffrey Howe raised with you the possibility of the UK hosting the Commonwealth Finance Ministers' meeting (CFMM) next year. I am writing in John Major's absence to follow up that conversation.

I am aware that CFMMs cannot compete with some other international economic gatherings. But they do offer us a forum in which to exert influence over the economic thinking of a very large and varied group of countries. They can be used to our advantage; for example, in 1987 in Barbados, you were able to secure Canadian and other Commonwealth support for your sub-Saharan Africa debt initiative. CFMMs can also encourage developing Commonwealth countries to adopt the right sort of economic policies, such as encouraging the role of the private sector, for example through the Secretariat's current proposal for a Commonwealth Equity Fund. Every two years the meeting acquires a heightened political value as it prepares the economic sections of the Commonwealth Heads of Government Meeting communique. For all these reasons I am sure it is right for us to continue to play a leading part in the CFMM.

/The UK last



The UK last hosted a CFMM in 1982. Realistically 1990 will be our last chance to do so again for some time. In 1991 the annual meetings of the IMF and IBRD will be in Bangkok, so Commonwealth Finance Ministers will presumably want to meet immediately beforehand somewhere in Asia. In the second half of 1992 we shall hold the EC Presidency and so will be heavily engaged. In 1993 we may host the Commonwealth Heads of Government Meeting.

If you are prepared to host the 1990 meeting, as I hope you will, then ideally Richard Ryder could make a firm offer in Kingston on 19-21 September. I am sure many other Commonwealth countries would welcome the chance to stop off in London on route to the annual meetings in 1990. A London meeting would also take the pressure off the resources of the smaller Commonwealth countries, especially in the Caribbean, who are the usual CFMM hosts when the IMF and World Bank meet in Washington.

If you decide to host the 1990 CFMM it might be possible to hold it at the Queen Elizabeth II Conference Centre; I understand that it would be available from 7-18 September next year.

L C

Overseas Development Administration
23 August 1989

*X to true. But OST
SLD knows that it is
not walking the line
no approach.*

FROM: J C MAY - AEF1
DATE: 11 September 1989
Ext: 4902

1. ~~MR MOUNTFIELD~~ *M.*
2. ECONOMIC SECRETARY

cc: Chancellor
Mr Wicks
Mr Evans
Mr Allan (IF)
Mr Davis (AEF1)
Mr Pickering (IF)

VISIT BY ZAMBIAN FOREIGN MINISTER

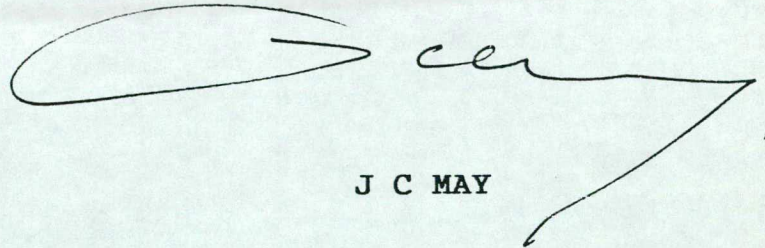
The Zambian Minister, Mr Luke Mwananshiku, will be paying an official visit to the UK on 4-6 October. He will meet, among others, the Foreign Secretary. The Foreign Office see some advantage in arranging a meeting with a Treasury Minister. The morning of 5 October, when you are free, is the preferred time.

2. You will be aware of the economic problems facing Zambia and the current efforts to construct a sustainable policy of economic reform. You may meet the Zambian Finance Minister, Mr Chigago, at a bilateral during the Commonwealth Finance Ministers meeting: briefing is being prepared for this eventuality. This would enable you to discuss the prospects for a viable programme of economic reform and the Government's commitment to such a policy. We have strong doubts about both. We have therefore played a waiting game to date on the question of whether the UK would lead a Support Group, wishing to see progress in certain key areas and signs of adequate donor support before taking a decision. We are nonetheless under pressure to agree to chair a Support Group.

3. The sensitivity of this issue might be seen as a reason for not meeting Mr Mwananshiku. However, the issue is bound to be raised at this meeting with the Foreign Secretary, and HMG will have to make its views clear, no matter how unpalatable they may be to the Zambians. In the circumstances there may be some benefit in reinforcing the message at a separate meeting. It would also provide an opportunity to gauge Mr Mwananshiku's own commitment to economic reform and the balance of opinion in the

Zambian government. Mr Mwananshiku was himself Finance Minister before Zambia broke with the IMF and is said to be pro reform, so he may be worth cultivating.

4. While the decision is for you I would recommend on balance that you agree to a meeting. If you decide to go ahead, we will provide appropriate briefing and support.



J C MAY

I agree. We are likely to be asked to chair the Support Group anyway (& no decision has been taken yet). But whichever way the decision goes, there is every advantage in telling Mr Mwananshiku a few home truths.

R₁
11.9



FROM: J M G TAYLOR

DATE: 11 September 1989

A large, stylized handwritten signature in black ink, likely belonging to J. M. G. Taylor.

PS/ECONOMIC SECRETARY

cc Mr Wicks
Mr Evans
Mr Allan - IF
Mr Mountfield
Mr May - AEF1
Mr Davis - AEF1
Mr Pickering - IF

VISIT BY ZAMBIAN FOREIGN MINISTER

The Chancellor has seen Mr May's note of 11 September.

2. He has commented that it is true that no decision has yet been taken on whether we should chair the Support Group. But the Economic Secretary will want to know that it is most unlikely that any such decision will be in the affirmative.

A small, handwritten mark or signature in black ink, possibly initials.

J M G TAYLOR

FROM: A C S ALLAN
 DATE: 12 September 1989
 EXT: 4430

CHANCELLOR

cc PS/Economic Secretary
 Sir P Middleton
 Mr H P Evans
 Mr Mountfield
 Mr Pickering
 Mrs Lester
 Mr Tyrie

1990 COMMONWEALTH FINANCE MINISTERS' MEETING

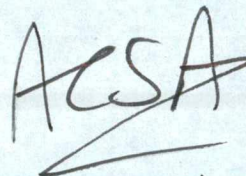
Mrs Chalker's minute of 23 August presses you to host the Commonwealth Finance Ministers' meeting in London in 1990.

2. This is a **ghastly** prospect. Experience with informal ECOFIN at Gleneagles in 1986 demonstrated just how much of your time this sort of thing takes - not just in chairing the meetings and hosting receptions, but in arranging all the details beforehand. It would also involve a considerable effort by Mrs Lawson in hosting a wives' programme. The CFM is of course a much bigger affair than an informal ECOFIN, with over 40 delegations. It also comes at a busy time of year, sandwiched between the informal ECOFIN and the Annual Meetings.

3. There would be considerable costs and administrative effort for the Treasury, as well as for the Government Hospitality Fund, the FCO's Conference Department and others. Hiring the Queen Elizabeth II Conference Centre, which Mrs Chalker suggests, would be a significant additional expense for the Treasury.

4. The problem is **finding arguments we can respectively deploy for not taking this burden on**. The best seems to be to argue that it is not our "turn", and that the FCO in any case exaggerate the importance of the CFM. This is the line taken in the attached draft minute to the Foreign Secretary (which could easy be turned into a Private Secretary letter if you think that would be more appropriate).

5. The draft suggests, as a fallback, that if the Bermudan government could be persuaded to take this on, you would be prepared to chair the meeting and host a reception. This is what happened in 1980. From talking to those in the Treasury who were involved then, ~~this~~ should not involve much of your time in preparing for the meetings.



A C S ALLAN

LOCATIONS OF COMMONWEALTH FINANCE MINISTERS MEETINGS.

- 1971 Bahamas
- 1972 London
- 1973 Dar es Salaam
- 1974 Ottawa
- 1975 Georgetown
- 1976 Hong Kong
- 1977 Barbados
- 1978 Montreal
- 1979 Malta
- 1980 Bermuda
- 1981 Bahamas
- 1982 London
- 1983 Port of Spain
- 1984 Toronto
- 1985 Maldives
- 1986 St Lucia.
- 1987 Barbados
- 1988 Cyprus.
- 1989 Jamaica

RESTRICTED

Richard Gozney, Esq
PS Secretary of State

DRAFT MINUTE TO THE FOREIGN SECRETARY

Foreign & Commonwealth Office
JH.

1990 COMMONWEALTH FINANCE MINISTERS' MEETING

Sir Geoffrey Howe the Chancellor

You raised with me in July the question of whether the UK should host the 1990 Commonwealth Finance Ministers' Meeting; Linda Chalker followed this up in her minute to me of 23 August.

The Minister of Overseas Development

the Chancellor

The Chancellor is

I am very reluctant to take this on. It is not the UK's "turn", in the sense that we hosted the CFM in 1972 and 1982, and other countries have generally had a 10 year gap between hosting meetings. I recognise that we may not be able to host the CFM in 1992 because of our EC Presidency; but in spite of Linda's points, he does not see the CFM as sufficiently valuable to want to volunteer taking it on before then.

the made by the Minister of Overseas Development

The Chancellor's

My first choice would be to see if another Caribbean country can be persuaded to host next year's meeting. If not, and if the government of Bermuda could be persuaded to host the meetings, he would be prepared to chair the meetings there and host a reception, as happened in 1980.

Myles Wickstead

I am copying this minute to Linda Chalker.

letter

NL

JMG
P-S-

cc PS/Economic Secretary
Sir P Middleton
Mr H P Evans
Mr A C S Allan
Mr Mountfield
Mr Pickering
Mrs Lester
Mr Tyrie



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

13 September 1989

PWP

Richard Gozney Esq
PS/Secretary of State
Foreign and Commonwealth Office
Downing Street
SW1A 2AL

Dear Richard

1990 COMMONWEALTH FINANCE MINISTERS' MEETING

Sir Geoffrey Howe raised with the Chancellor in July the question of whether the UK should host the 1990 Commonwealth Finance Ministers' Meeting; the Minister of Overseas Development followed this up in her minute to the Chancellor of 23 August.

The Chancellor is very reluctant to take this on. It is not the UK's "turn", in the sense that we hosted the CFM in 1972 and 1982, and other countries have generally had a 10 year gap between hosting meetings. The Chancellor recognises that we may not be able to host the CFM in 1992 because of our EC Presidency; but in spite of the points made by the Minister of Overseas Development, he does not see the CFM as sufficiently valuable to want to volunteer taking it on before then.

The Chancellor's first choice would be to see if another Caribbean country can be persuaded to host next year's meeting. If not, and if the government of Bermuda could be persuaded to host the meetings, he would be prepared to chair the meetings there and host a reception, as happened in 1980.

I am copying this letter to Myles Wickstead.

Yours ever

J M G Taylor

J M G TAYLOR
Private Secretary

P.W.F

FROM: A C S ALLAN (IF)
 DATE: 3 October 1989
 EXT: 4430

MR WICKS

cc

PS/Chancellor
 PS/Economic Secretary
 Sir P Middleton
 Mr H P Evans
 Mr Mountfield
 Mr Pickering
 Mr Tarkowski
 Mrs Lester o/r

Ch. X below. I am sure you
 will not be too upset by the failure to
 take up your kind offer!

3/10
 on the
 low work
 put out!

NEXT YEAR'S COMMONWEALTH FINANCE MINISTERS' MEETING

I should perhaps record for the record the events in Jamaica which led to Trinidad becoming the venue for the 1990 CFM.

2. The Bermuda Government had indicated that it would be very willing to host next year's CFM, and we passed this on to the new Deputy Secretary General, Peter Unwin, who was enthusiastic about the prospects of the Chancellor chairing the meetings. But when he approached Sonny Ramphal he got a very negative reaction, based on an alleged hostility among many Caribbean countries to the Bermudan administration. (Having met David Saul, the Financial Secretary in Bermuda, whose style is extremely blunt, I began to see what the problem might be!) Our reaction to this was that we would not push Bermuda's bid, but that it was incumbent on the Secretariat to produce an alternative offer.

X | 3. After some arm-twisting behind the scenes, Trinidad duly offered to host the 1990 CFM. This was accepted (and the Bermudans did not seem too upset or surprised). Peter Unwin told me he hoped the Chancellor would not be too aggrieved that his offer to chair the meeting had not been taken up, and that this would not prevent him coming to Trinidad, though on past form Unwin realised he could not be optimistic.

ACSA

A C S ALLAN



10 DOWNING STREET
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	9 OCT 1989
ACTION	Mr PEE DAVIS
COPIES TO	CST, EST Mr NICKS
	Mr EVANS
	Mr MOUNTFIELD
	Mr R.G. ALLEN
	Mr A.C.S. ALLAN

From the Private Secretary

9 October 1989

Dear John,

MOROCCO

I received an emissary from the King of Morocco this morning, on the Prime Minister's behalf, who came to deliver a message about the negotiations currently in progress in Paris between Morocco and commercial banks about the restructuring of Morocco's foreign debt. He left me with the background note enclosed. As I understand it, 6 of the 10 banks which are doing the negotiating have agreed on a proposal to put to the Moroccan Government. The other 4, including Barclays, have not yet agreed. The King hoped the Prime Minister could convince Barclays to join the consensus. Similar action was being taken with the American and German Governments so far as their banks were concerned.

I explained that it was not possible for us to intervene in negotiations between commercial banks and Governments or substitute our judgement for theirs. This was a rule which we invariably applied: I recalled the instance in July when the President of Mexico had made a similar request and the Prime Minister had explained that we could not intervene directly.

Nonetheless, the Prime Minister attaches a great deal of importance to relations with the King of Morocco and does not want to send back a totally negative reply. Would it be possible to contact Barclays later today or tomorrow simply to enquire how negotiations are progressing and gain an impression of what the prospects are for success? That will at least enable the Prime Minister to reply to the effect that she had taken steps to establish the position and make Barclays aware of her interest. Perhaps we could have a word about this on the telephone.

I am copying this letter to Bob Peirce (Foreign and Commonwealth Office) and to Neil Thornton (Department of Trade and Industry).

Charles Powell
CHARLES POWELL

John Gieve, Esq.,
H.M. Treasury.

RESTRICTED



7/10

CH/EXCHEQUER	
REC.	9 OCT 1989
ACTION	Mr PFF DAVIS
COPIES TO	EST, EST
	Mr WICKS
	Mr EVANS
	Mr MOUNTFIELD
	Mr R. G. ALLEN
	Mr A. C. ALLAN

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

9 October 1989

Dear John,

MOROCCO

I received an emissary from the King of Morocco this morning, on the Prime Minister's behalf, who came to deliver a message about the negotiations currently in progress in Paris between Morocco and commercial banks about the restructuring of Morocco's foreign debt. He left me with the background note enclosed. As I understand it, 6 of the 10 banks which are doing the negotiating have agreed on a proposal to put to the Moroccan Government. The other 4, including Barclays, have not yet agreed. The King hoped the Prime Minister could convince Barclays to join the consensus. Similar action was being taken with the American and German Governments so far as their banks were concerned.

I explained that it was not possible for us to intervene in negotiations between commercial banks and Governments or substitute our judgement for theirs. This was a rule which we invariably applied: I recalled the instance in July when the President of Mexico had made a similar request and the Prime Minister had explained that we could not intervene directly.

Nonetheless, the Prime Minister attaches a great deal of importance to relations with the King of Morocco and does not want to send back a totally negative reply. Would it be possible to contact Barclays later today or tomorrow simply to enquire how negotiations are progressing and gain an impression of what the prospects are for success? That will at least enable the Prime Minister to reply to the effect that she had taken steps to establish the position and make Barclays aware of her interest. Perhaps we could have a word about this on the telephone.

I am copying this letter to Bob Peirce (Foreign and Commonwealth Office) and to Neil Thornton (Department of Trade and Industry).

John Gieve
Charles Powell
CHARLES POWELL

John Gieve, Esq.,
H.M. Treasury.

La Chemical bank, la Commerzbank et la Barclays bank n'avaient pas jusqu'alors souscrit à cette proposition. Il est à signaler dans ce cadre que les banques françaises Arabes et japonaises ont pleinement soutenu et appuyé ladite proposition.

Le menu d'options suggéré dans le cadre de la dernière proposition du Comité de coordination se présente comme suit :

- Moyen terme

1 - Réechelonnement à taux fixe.

- Durée : 20 ans dont 10 ans de grace.
- Taux d'intérêt : 6.5 % en moyenne sur 8 ans (avec 6.25 % au départ et augmentation progressive par la suite)
- Retour aux conditions de marché (Libor + 13/16 %) à partir de la 9ème année.
- 1 an de garantie d'intérêt

2 - Apport d'argent frais

- Quotité : 15 % de l'engagement (base)
- Durée : 15 ans dont 8 ans de grâce
- Taux d'intérêt Libor + 13/16 % sans garantie.

3 - Base de l'apport d'argent frais

- Durée : 20 ans dont 10 ans de grâce
- Taux d'intérêt : Libor + 13/16 % sans garantie

- Court terme : Traitement différencié des acceptations bancaires.

4 - Acceptations bancaires avec Apport d'argent frais

- Durée : 15 ans dont 8 ans de grace
- Taux d'intérêt : Libor + 13/16 % l'an
- sans garantie.

5 - Acceptations bancaire à taux fixe

- Durée : 9 ans dont 5 ans de grâce
- Taux d'intérêt : 7 % l'an
- sans garantie.

Aux fins de réunir le consensus de toutes les banques du Comité de coordination autour de cette proposition que la délégation marocaine a jugé acceptable dans sa structure globale, des efforts ont été entrepris tant par la partie marocaine que par les dirigeants de banques et d'institutions financières internationales pour convaincre les banques réticentes à se rallier à la proposition de la majorité de Steering committee.

DIRECTION DU TRÉSOR ET DES FINANCES EXTÉRIEURES

DIVISION DES FINANCEMENTS EXTÉRIEURS

/- I C H E

A/S DES NEGOCIATIONS AVEC LES BANQUES COMMERCIALES INTERNATIONALES

3 / 6 5 = ~~11~~

-o-

Mr Barclays Bank = Mr J. G. Quinton

AdyS : Mr P. E. Lesley

Mr Andrew Buxton

Dés le mois de février 1989, le Maroc a entamé à Paris des négociations avec le Comité de coordination des banques commerciales internationales créancières du Royaume pour la restructuration de sa dette extérieure à l'égard de ces institutions.

Les négociations engagées à Paris depuis cette date avec les banques membres de ce comité avaient abouti à l'acceptation par ces dernières du principe de l'application à la dette bancaire du Maroc des dernières initiatives en matière de traitement du problème de l'endettement extérieur et plus particulièrement du plan "Brady" de réduction de l'encours et du service de la dette. L'application de ce plan au Maroc concernera 3.2 milliards de dollars US sur une dette bancaire totale de 3.6 milliards de dollars.

Lors de ces négociations qui s'étaient déroulées dans un climat de compréhension et de concertation mutuelle, les banques commerciales internationales étaient convenues d'étudier avec la partie marocaine les mécanismes de réduction de la dette à mettre en oeuvre pour aboutir à un allègement substantiel de la dette bancaire marocaine.

Dans le cadre de la poursuite de ces négociations une série de réunions vient de se tenir durant la 2^e quinzaine du mois de septembre 1989 à New-York.

L'objectif de ces réunions était d'élaborer un menu complet d'options de réduction de la dette acceptable par les deux parties.

A l'issue de ces négociations, les deux co-présidents du Comité de coordination des banques, en l'occurrence les représentants de la BNP et CITICORP ont fait à la délégation marocaine une proposition de menu d'options de réduction de la dette en précisant toutefois que ladite proposition a recueilli l'approbation de 60 % des banques membres de ce comité (CITIBANK, BNP, BANK OF TOKYO, GULF INTERNATIONAL BANK, CREDIT LYONNAIS, UBAF) alors que la Chase Manhattan,

.../...

engagements banques
à l'égard du Maroc =
256 Mill US soit 8,2%
de la dette totale éligible
à la restructuration des
3,2 Mill US
de Barclays = 110 Mill US de
dette soit 43% de
l'engagement total des
banques internationales



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

CH/EXCHEQUER	
REC.	9 OCT 1989
ACTION	Mr PFF DAVIS
COPIES TO	CST, EST, Mr WICKS, Mr EVANS, Mr MOUNTFIELD, Mr R. B. ALLEN Mr ACS ALLAN
9 October 1989	

Dear Bob,

NOT RELEVANT OR COPIED
TO HMT.

MOROCCO

Thank you for your letter of 6 October (not to all). General Kadiri duly called on me today to raise a number of matters for the Prime Minister's attention on behalf of the King of Morocco.

The first concerned Morocco's negotiations with commercial banks and I have written separately about this.

The second was the possibility of a Moroccan purchase of Challenger II. General Kadiri said that the matter had been held in abeyance for a period while the King concentrated on establishing the Union of Maghreb States. Now that was in place, he wished to revert to the idea of purchase of Challenger and would like to send General Zeriab, who is Head of Defence Procurement in Morocco, to meet the Minister for Defence Procurement. I said that I thought Mr. Clark would be very willing to see General Zeriab and that dates might be discussed through the Embassy in Rabat. General Kadiri said that Morocco would need help over the financing of such a purchase. I asked whether there was still any possibility of the Saudis helping to finance this project: he looked doubtful.

General Kadiri then raised the matter which is the subject of the enclosed Memorandum, that is a dispute between Morocco and India over supply of phosphates. The King was very anxious to see the matter settled amicably and wondered whether the Prime Minister would be prepared to put in a brief word with Mr. Gandhi in the margins of CHOGM and suggest that he nominate someone to discuss the matter with the Moroccan Government. I said that I would report this to the Prime Minister. I was not sure that it would be practicable, but I knew she would want to be helpful to the King if she possibly could. General Kadiri added, confidentially, that the reason the problem had arisen was that the Indian party to the contract had demanded a large contribution to the Congress Party's election coffers which the Moroccan company had refused to pay.

I then raised a number of issues. I recalled that we were still waiting for ratification of the Double Taxation and Compensation Agreements and hoped that something could be done about this rather soon. General Kadiri was somewhat shifty but duly wrote it down. I continued that we were keen to see the Crown Prince take up the invitation to pay an official visit to Britain

CONFIDENTIAL

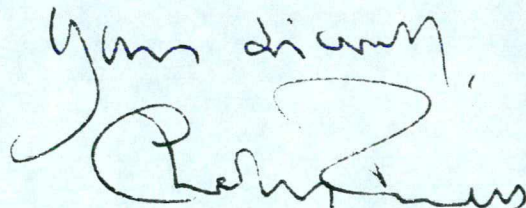
CONFIDENTIAL

-2-

next year. General Kadiri said he was sure the King would want the visit to take place. He would raise the matter on his return to Morocco. I warned General Kadiri about the impending introduction of a visa regime, explaining the reasons for this. He noted my remarks carefully but did not seem particularly fazed.

I think that the Prime Minister will want us to help over the phosphates. We might prepare a short speaking note for her which makes clear that we are not in any way party to the dispute but are simply using our good offices to convey a message. If needs be, I could hand it over to Gandhi's Private Secretary. I assume that you and the Ministry of Defence will handle the question of a meeting with General Zeriab.

I am copying this letter to John Gieve (H M Treasury), Brian Hawtin (Ministry of Defence) and Neil Thornton (Department of Trade and Industry).

A handwritten signature in dark ink, appearing to read 'C. D. Powell', written in a cursive style.

C. D. POWELL

R. N. Pierce, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

CONFIDENTIAL

The Moroccan sub-soil houses a huge phosphate deposit the size of which is estimated to account for 70 % of world reserves.

The Office Cherifien des Phosphates, O.C.P. (a State-owned phosphate Corporation), an industrial and commercial organization has, since its inception in 1921 conducted a large activity centered on units for phosphate ore extraction, processing and up-grading something which has earned Morocco the position of the third producer and first exporter in the world.

The Kingdom of Morocco has thus secured substantial shares on the world market of phosphate rock and its derivatives namely phosphoric acid and fertilizers.

The O.C.P., an enterprise worldwidely known and appreciated, has now earned as much as 30 % of the world market for phosphate rock, 40 % for phosphoric acid and 20 % for fertilizers. For many decades now O.C.P.'s sales have been shipped to 50 countries spread over 5 continents with its customers fully satisfied.

The size of India's structural requirements in terms of phosphoric acid, in the immediate aftermath of the remarkable land reform undertaken by the Indian Government, has led O.C.P. to gradually expand its sales to India, thus strengthening its position as the first phosphoric acid exporter. The confident and harmonious trade relations that have thus been forged, have enabled OCP to increase its share of the Indian market from 28 % in 1979 to 58 % in 1988. Unfortunately, India's failure to comply with the supply agreement for 1989 involving in excess of US \$ 200 million, has seriously damaged the excellent relations between OCP and its Indian customers.

After repeated attempts to call meetings with the Indian customers to settle the question in an amicable manner, had proved unsuccessful, OCP was compelled and forced to lodge an arbitration request with the London Chamber of Commerce. The Kingdom of Morocco does not wish to pursue the arbitration request for it runs counter to the traditions and principles it has always upheld and is therefore firmly committed to dialogue and consultations.

We, consequently, suggest that the British High Authorities promote the convening of a meeting in London between the Moroccan and Indian officials at the ministerial level to jointly seek an amicable solution to this unfortunate incident in our cooperation path. The Kingdom of Morocco attaches a special importance to the restoration of the confident and smooth relations between OCP and its Indian customers.

MINISTÈRE DES FINANCES

DIRECTION DU TRESOR ET DES FINANCES EXTERIEURES

DIVISION DES FINANCEMENTS EXTERIEURS

I C H E

A/S DES NEGOCIATIONS AVEC LES BANQUES COMMERCIALES INTERNATIONALES

3 / 6 5 - 21

-0-

*Mr Barclays Bank - Mr J. G. ...
Mr ... Lesley
Mr Andrew ...*

Dès le mois de fevrier 1989, le Maroc a entamé à Paris des négociations avec le Comité de coordination des banques commerciales internationales créancières du Royaume pour la restructuration de sa dette extérieure à l'égard de ces institutions.

Les négociations engagées à Paris depuis cette date avec les banques membres de ce comité avaient abouti à l'acceptation par ces dernières du principe de l'application à la dette bancaire du Maroc des dernières initiatives en matière de traitement du problème de l'endettement extérieur et plus particulièrement du plan "Brady" de réduction de l'encours et du service de la dette. L'application de ce plan au Maroc concernera 3.2 milliards de dollars US sur une dette bancaire totale de 3.6 milliards de dollars.

Lors de ces négociations qui s'étaient déroulées dans un climat de compréhension et de concertation mutuelle, les banques commerciales internationales étaient convenues d'étudier avec la partie marocaine les mécanismes de réduction de la dette à mettre en oeuvre pour aboutir à un allègement substantiel de la dette bancaire marocaine.

Dans le cadre de la poursuite de ces négociations une série de réunions vient de se tenir durant la 2è quinzaine du mois de septembre 1989 à New-York.

L'objectif de ces réunions était d'élaborer un menu complet d'options de réduction de la dette acceptable par les deux parties.

A l'issue de ces négociations, les deux co-présidents du Comité de coordination des banques, en l'occurrence les représentants de la BNP et CITICORP ont fait à la délégation marocaine une proposition de menu d'options de réduction de la dette en précisant toutefois que ladite proposition a recueilli l'approbation de 60 % des banques membres de ce comité (CITIBANK, BNP, BANK OF TOKYO, GULF INTERNATIONAL BANK, CREDIT LYONNAIS, UBAF) alors que la Chase Manhattan

.../...

*payements toujours en retard
de la part de ...
2 ABUS
Banques = 110 milliards
de ... 4 3/4 % de
engagements ...
... - ...*

La Chemical bank, la Commerzbank et la Barclays bank n'avaient pas jusqu'alors souscrit à cette proposition. Il est à signaler dans ce cadre que les banques françaises Arabes et japonaises ont pleinement soutenu et appuyé ladite proposition.

Le menu d'options suggéré dans le cadre de la dernière proposition du Comité de coordination se présente comme suit :

- Moyen terme

1 - Réechelonnement à taux fixe.

- Durée : 20 ans dont 10 ans de grace.
- Taux d'intérêt : 6.5 % en moyenne sur 3 ans (avec 6.25 % au départ et augmentation progressive par la suite)
- Retour aux conditions de marché (Libor + 13/16 %ⁱ à partir de la 9ème année.
- 1 an de garantie d'intérêt

2 - Apport d'argent frais

- Quotité : 15 % de l'engagement (base)
- Durée : 15 ans dont 8 ans de grâce
- Taux d'intérêt Libor + 13/16 % sans garantie.

3 - Base de l'apport d'argent frais

- Durée : 20 ans dont 10 ans de grâce
- Taux d'intérêt : Libor + 13/16 % sans garantie

- Court terme : Traitement différencié des acceptations bancaires.

4 - Acceptations bancaires avec Apport d'argent frais

- Durée : 15 ans dont 8 ans de grâce
- Taux d'intérêt : Libor + 13/16 % l'an
- sans garantie.

5 - Acceptations bancaire à taux fixe

- Durée : 9 ans dont 5 ans de grâce
- Taux d'intérêt : 7 % l'an
- sans garantie.

Aux fins de réunir le consensus de toutes les banques du Comité de coordination autour de cette proposition que la délégation marocaine a jugé acceptable dans sa structure globale des efforts ont été entrepris tant par la partie marocaine que par les dirigeants de banques et d'institutions financières internationales pour convaincre les banques réticentes à se rallier à la proposition de la majorité de Steering committee.

RESTRICTED

FROM: P G F DAVIS (AEF1)
 DATE: 10 OCTOBER 1989
 EXT: 4719

PPS

cc PS/Chief Secretary
 PS/Economic Secretary
 Mr Wicks
 Mr H P Evans
 Mr A C S Allan (IF)
 Mr R I G Allen (EC)
 Mr Mountfield (AEF) (or)
 Mr May (AEF1)

MOROCCO

Acting on yesterday's letter from No 10, I asked the Bank of England to get in touch with Barclays and enquire how they now stood in the negotiations on the restructuring of Morocco's debt to commercial banks. The Bank spoke to Barclays this morning but discovered that the only people who knew the details of the present negotiations were locked in the negotiations in Paris and would not be back until Thursday morning.

2. I asked if they could be contacted meanwhile. The Bank said it would be possible, but advised against it, lest such an unusual and urgent display of interest should make the Barclays negotiators think that there was some new factor which they should investigate before completing the negotiations.

3. The Bank's view is that as Barclays are relatively small participants they would have a job to stand out against joining the majority, and that it is likely that they are even now coming into line.

4. I suggest that we do not press the Bank to enquire further before Thursday.

5. I suggest you ring Mr Powell and say that enquiries have been made of Barclays; the negotiations are proceeding and have reached a stage at which success seems probable; but we shall not know more until late on Thursday morning.

6. I will report further then.

6
 P G F DAVIS

gave
 this to
 CP

12 October 1989

John to see
PPS. p1.

NOTE FOR THE RECORD

cc PS/Chancellor
Mr H P Evans
Mr Mountfield (or)
Mr May (AEF1)
Mr Powell (AEF2)

~~PPS~~
4719

MOROCCO (COMMERCIAL BANK DEBT)

Tim Smith, Bank of England, has just rung me on his own return from Morocco.

2. The negotiations in Paris are still going on. He will report further when they break up and the UK representatives (from Barclays) have returned - possibly to-morrow.

3. However the prospects for agreement do not now look good. Although, while negotiations continue, a break-through is always possible, the 4 countries which were resisting agreement are still in that position. Mr Smith thinks that at least one further meeting will be necessary.

4. On the credit side, the Governor of the Moroccan Central Bank acknowledged to Mr Smith that the UK Government could not interfere in the decisions of commercial banks; and Moroccan complaints are aimed chiefly at the US banks, and especially at Chase Manhattan, which is leading for the US, because of its recent big debt provisions. So the UK is far from isolated. But less reassuringly, the British banks' objection to the deal is that it is too generous, and it might be less easy to meet that objection than those of other countries which are more technical in nature. So the British banks might be isolated in the end. Barclays will not be able to agree to anything which they cannot sell to the UK banking community at large.

5. Mr Smith reminded me that Morocco was in arrears with its interest payments to commercial banks; and that was making the negotiations more difficult. He mentioned incidentally that ECGD

have also lost a payment from Morocco in respect of the Moroccan Paris Club deal. Behind the negotiations with the banks is a \$500 million hole in Morocco's balance of payments because of the halt in exports of phosphoric acid to India, which was the subject of a separate note from No 10, addressed to the FCO. However, only 15% of Morocco's total debt is to commercial banks (and only 7% of that to UK banks).

6

P G F DAVIS

AEF(1)

RESTRICTED

16 October 1989

NOTE FOR THE RECORD

cc

PS/Chancellor
 Mr H P Evans
 Mr Mountfield
 Mr Pickering (IF1)
 Mr May (AEF1)

MOROCCO (COMMERCIAL BANK DEBT)

I discovered, late on Friday, that the Bank of England had not in fact told Barclays of the Moroccan approach to No 10 and No 10's interest. They did so this morning: Mr Smith spoke to the International Banking Director (sticking, of course, to the policy of non-intervention).

2. The negotiations are still at an impasse; the two Barclays negotiators are now back in London, but the meeting is to be resumed in Paris to-morrow.

3. As Mr Smith understands it, Barclays/UK Banks are not yet isolated. But they can see no scope for changing their position, as in their view the economic numbers do not justify the Moroccan proposal. They accept that Morocco has a good case for relief over the next year or so, but not over the 8-10 years for which they are seeking it. A prediction that there will be a sequence of droughts is now being advanced in support of the proposal, but the prediction is made less plausible by the fact that Morocco has just enjoyed two very good years.

4. The Bank of England's reluctance to mention No 10's interest to Barclays arose from the fear that it might drive Barclays further from agreement. Barclays were already dismayed at the amount of political interference. King Hassan had approached the Commerzbank. Then de Larosiere (Banque de France) had telephoned the Governor. The French are to make another high-level approach to Barclays in Zurich to-day. Barclays believe that Trichet is behind all this - and they also accuse Mulford of playing

RESTRICTED

politics. They find the Moroccan proposals far more sophisticated than is justified by the size of the problem, and they see the negotiations as an attempt to pull French, not Moroccan, chestnuts out of the fire.

5. It seems, therefore, that the negotiations could go on for quite a long time. I am told that those in 1983-84 lasted for more than a year. However, Mr Smith has promised to let me know of developments.

b

P G F DAVIS

CONFIDENTIAL

Phy

Ch. This is v. satisfactory, since the Moroccan Govt. has not now

hardly now agree that Barclays are blocking a deal. But I see no advantage in humbling the PM on this at this stage (see X), this - if you agree - I will inform P. King of developments.

19 October 1989

NOTE FOR THE RECORD

- PS/Chancellor
- Mr H P Evans
- Mr Mountfield
- Mr Pickering (IF1)
- Mr May (AEF1)

MOROCCO (COMMERCIAL BANK DEBT)

Mr Smith, Bank of England, rang me this morning to say that the banks' negotiating team had now reached consensus on an offer to Morocco. The team was, however, only a steering group; it would have to persuade the other banks it represented, and as the agreement was to be a voluntary one, that might be hard work.

2. Consensus was made possible by the idea of introducing a break clause, under which a concessional interest rate of 6.5% or 6.75% would be agreed for only 5 years, rather than the 8 years proposed by Morocco, and would then be reviewed.

3. The Moroccans almost threw this back at the banks. Citibank and BNP are going to ask Messrs Trichet and Mulford to urge Morocco to accept the offer as the banks' bottom line.

4. Mr Smith wondered if the Prime Minister would wish to send a message to King Hassan reinforcing this line and urging speedy agreement. But the Prime Minister is at CHOGM.

5. I attach a letter which Mr Smith sent me on Tuesday setting out in greater detail the position recorded in my earlier notes.

6

P G F DAVIS

yes, do it

17/10

X

20/10
BANK OF ENGLAND
Threadneedle Street
London
EC2R 8AH

17 October 1989

P Davis Esq
HM Treasury
Parliament Street
London SW1P 3AG

See Peter

BARCLAYS BANK AND MOROCCO

1 After talking to several other British banks, all of whom indicated that they supported the position being taken by Barclays in the Steering Committee, I rang Barclays' International Banking Director on Friday to ask about latest developments. He noted that the committee was a 'difficult' one that had not really 'jelled', even though they had met on a number of occasions. The American banks were using the forum to pursue their bilateral disputes, though most banks were suspicious of Citibank as Co-Chairman (with BNP); another bank told me that the Citibank representative was a (female) Syrian. The Moroccans have a track record, in earlier London Club negotiations, of sticking out inflexibly for favourable terms, often for a year or more. Barclays did not believe that impasse was necessarily inevitable, but they thought it likely that the meeting would continue over the weekend, and there might then be further rounds. Barclays indicated that the reservations of the British banks fell into three broad categories.

(a) Political difficulties

(i) Tactical

2 The banks were very suspicious that the Moroccan negotiations were politically driven, primarily by Trichet and Mulford. This feeling was reinforced by the fact that the Chairman of Commerzbank had received a phone call from King Hassan just as the meeting was beginning, asking that the Commerzbank representative be urged to take a softer line. This was widely seen to be a French initiative rather than spontaneous action by the Moroccans (the French have 52% of Morocco's debt); as such, it provoked some resentment. It seemed particularly inappropriate at that point, therefore, for me to reveal to Barclays that de Larosiere had lobbied the Governor, or that King Hassan had sent an emissary to the Prime Minister. I did, however, mention that Governor Bennani had raised the matter

with me in Rabat. Trichet has, of course, used the Paris Club tour d'horizon earlier this year to urge delegations to lean on the banks to concede debt relief to the Moroccans.

(ii) Burden sharing

3 Barclays indicated that the banks were also concerned about the burden sharing implications of the Moroccan request. Morocco was a marginal debtor; and for Morocco the banks creditors had only a modest share (15%). It was particularly resented, therefore, that such heavy political pressure seemed to be being applied by Governments to Morocco to seek more generous terms than Governments were themselves prepared to concede. Barclays were anxious to know how generous the Paris Club was likely to be; I was unable to offer much comfort.

(b) Technical

4 The Steering Committee also had reservations about the technical aspects of the original proposals. It had never been clear whether the proposals were intended to be mandatory (which was unacceptable to the Germans) or voluntary (which would probably result in too many banks walking away). The proposals were, moreover, excessively complex for what was, after all, only a minor debtor of the banks; though admittedly, the latest proposals had been simplified somewhat. The elaborateness of the terms for such a modest debtor would have reflected badly on the judgment of the Committee, particularly as the overall package seemed unsaleable in its present form; there was no point in the Committee endorsing a package that was doomed to rejection by the banking community as a whole, however varied the menu.

(c) Economic factors

5 The key sticking point for the British banks, however, which may differentiate them from some other national groups, is their belief that the Moroccans have failed to make a case for terms as generous as those currently being sought. There was no dissention from the view that Morocco faced a difficult financing gap this year, not least because of the dispute with India over the phosphate contract. It is also recognised that Morocco is very vulnerable to exogeneous factors, and that it could not bank on harvests at current levels. Nevertheless, the British banks see a clear distinction between providing exceptional relief to bridge a difficult financing gap (which they would be prepared to concede - say \$100mn or so pa for three years) on the one hand, and the assumption by the banks of a long-term commitment to provide up to \$170mn pa on a virtually permanent basis on the other.

6 The Moroccans talk a great deal about privatisation, and there is a vigorous private sector. If Morocco needs long-term finance (the banks feel) then equity finance would provide a more appropriate vehicle. Yet, despite its complexity, the Moroccan proposals as yet make no provision for debt equity swaps.

Latest developments

7 When I spoke to Barclays on Monday they reported that the meeting had ended in impasse, but that a further meeting would be held in Paris today. Barclays were still not isolated, but there

had been some musical chairs; the two US banks were still opposed but Commerzbank was now prepared to go along with the proposal, now that its voluntary nature had been clarified. Bank of Tokyo, however, had seemed to be impressed with Barclays' argument that the package was too generous to be acceptable to the banking community on a voluntary basis. They would only, therefore, join a consensus which included all nine of the other banks. A senior representative of Barclays was attending a meeting on Monday in Zurich at which BNP would be present, and he was expected to be lobbied there; but BNP would be given a dusty answer. Barclays had been told by the French that the Bank of England would be lobbied by the Tresor or the Banque de France (which I was unable to deny). I took the opportunity to refer to the approach to the Prime Minister, the response and the Prime Minister's subsequent request for information.

8 None of this diminished Barclay's concern that political pressures were being used to pull French chestnuts out of the fire on the basis of poor economic justification. He understood that the figures* were being "massaged" to take account of prospective droughts; but Morocco has just had two excellent harvests and Barclays' economists would be unlikely to accept projections of continuous drought for a decade, though they readily conceded the need for assistance over the next year or two. More importantly, they believed that other banks would also see through the revised figures. It remained to be seen what changes were presented at the next meeting over both the form of relief and the underlying economic rationale. But Barclays seemed pessimistic about the likely outcome.

9 I should perhaps add that in Tunisia last week I was subjected to a very cogent argument from the Governor of the Central Bank who complained that countries like his, that adjusted properly and met all their commitments on time, seemed to get less sympathetic treatment than those that mismanaged their economies.

10 I am copying this letter to Peter Mountfield (HMT), Alan Goulty (FCO), Derek Coombe (ECGD), Victor Heard (ODA) and HMA Rabat.

*Yours sincerely,
L F T Smith*

L F T Smith

* The economic sub-committee consists of UBAF, Credit Lyonnais and Chemical Bank.

FROM: R K POWELL
DATE: 19 OCTOBER 1989
EXT: 4878

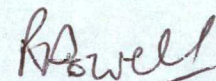
PS/CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
Mr Wicks
Mr Evans
Mr A Allan
Mr Mountfield
Mr Pickering
Mr Bottrill



SOUTH AFRICAN COMMERCIAL BANK DEBT RESCHEDULING

1. South Africa has agreed a rescheduling of its commercial bank debt.
2. The agreement covers about \$8bn of maturities due for payment between 1st July 1990 and 31st December 1993. It allows for 20.5% of the payments to be made in 8 unequal installments starting in December 1990 and ending in December 1993.
3. The broad terms are similar to the previous agreement. The 10 year exit bond option, which allows short term debt to be converted into long term debt is to remain available but with capital repayments being concentrated into a shorter period at the end (2.5 years rather than 5 years).



ROBERT POWELL

FROM: A R H BOTTRILL
DATE: 19 OCTOBER 1989
EXT: 4720

- 1. MR H P EVANS
- 2. PS/CHANCELLOR

- cc
- Sir P Middleton
 - Mr Wicks
 - Mr A C S Allan
 - Mr Mountfield
 - Mr Pickering
 - Mr Powell
 - Mr Mayes (BoE)
 - Mr Lankester (ODA)
 - Mr Hudson (ODA)
 - Mr Broadbent (FCO)
 - Ms Rycroft (FCO)
 - Mr Carrick (FCO)
 - Mr Lonsdale (FCO)
 - Mr Stephens (ECGD)
 - Mr Muir (DTI)
 - Mr Barder (Lagos)
 - Mr Cassell (UKDEL/IMF)
 - Mr R Todd (FCO)

Handwritten notes in red ink:
 Mr X, ed we consider
 make on after we
 make (K1) are we
 further (K1) are we
 no dignities
 this?

VISIT TO NIGERIA

I visited Nigeria last week to discuss progress with implementation of the government's adjustment programme and, in particular, the prospects for 1990 in preparation for November's meeting of donors in Paris. I met officials from the Budget and Planning Ministry, the Finance Ministry and the Central Bank as well as bankers, oilmen and other businessmen. I also saw the IMF mission chief who is currently visiting Lagos, and the local World Bank representative.

Developments in 1989

2. The government's austerity programme - introduced in mid-1988 - appears to be broadly on track for the current year. This reflects largely the fact that the 1989 budget was based on conservative assumptions about oil production and prices as well as the naira exchange rate. Government expenditure which was planned to be held broadly constant in nominal terms at last year's level, has in fact risen rapidly. This has reflected both higher domestic inflation and increased debt service costs. The

CONFIDENTIAL

government also announced in May increased spending on unemployment measures and compensation for public employees to mitigate some of the harshest effects of the austerity programme. Although the compensation for public employees was handled discreetly, the effect was to boost their total remuneration package substantially while ostensibly keeping nominal wages constant.

3. These increases, however, have been offset by higher government receipts from the petroleum sector. Nigeria's oil production seems likely to average about 1.7 million barrels a day compared to its OPEC quota of 1.43 mbd at the beginning of the year (subsequently raised to 1.50 mbd). The price for Nigeria's oil has averaged about \$17 a barrel compared to \$14.50 assumed when the 1987 budget was prepared. The official naira exchange rate has in turn averaged more than 7.0 to the dollar compared to the budget assumption of 5.0. The changes have broadly doubled the government's oil revenues in naira terms and have offset the increase in expenditure.

4. The permanent secretary of the Budget and Planning Ministry, John Edosian, who works directly to AAA, confirmed to us that the Federal budget deficit for the year as a whole would be close to target. This was set at 8.3 per cent of GDP in the original IMF programme - revised to 8.1 per cent when the programme was reviewed in July.

5. The finances of the states and local authorities are superficially on a satisfactory basis in the light of their healthy deposits with the banking system. The position, however, varies between states. They are responsible for spending on education and health as well as a wide range of rural projects but more than 80 per cent of their revenue comes from the Federal Governments. All states found it difficult to pay the compensation approved by the government for public employees, and some have been unable to pay salaries or service their debts. The aggregate financial position, therefore, probably disguises growing arrears in some cases.

CONFIDENTIAL

CONFIDENTIAL

6. Monetary developments, however, have been less satisfactory with broad monetary growth of almost 50 per cent at an annual rate in the early part of the year and commercial banks' liquidity rising sharply compared to 1988 levels. M1 was growing at an annual rate of 25 per cent up to May compared to the target of 14.7 per cent for the year.

7. Against a background where prices were rising at about 70 per cent, the government took steps to curb credit growth by preventing banks lending against the collateral of foreign exchange deposits and more importantly by insisting the public sector deposits were removed from the private banking system to the central bank. This is estimated variously to have drained Naira 6-8 billion or 15-20 per cent of banks' total liabilities out of the system.

8. The resulting liquidity squeeze has been severe by all accounts with some banks having to bid hard for additional deposits in the interbank market or cut back overdraft facilities to clients. Interest rates have risen so that prime lending rates are now around 25 per cent plus 4 per cent fees. Marginal borrowers are paying as much as 36 per cent. Even these rates, however, are still negative in terms of consumer prices although they may not appear so negative to producers who are complaining that the tight domestic demand situation is making it difficult to raise prices further.

9. Information on the real economy is sparse. Manufacturing output was rising relatively rapidly around the turn of the year and has probably continued to increase but capacity utilisation remained around 30 per cent in the first half of the year at least partly because of lack of foreign exchange for imported inputs and an absence of domestic substitutes. The Raleigh factory in Kano which is capable of producing 1 million bicycles a year in fact makes 60,000 - although it is surviving well. The Unilever soap factory in Lagos has restored output to 100,000 tons a year after a slump to 50,000 two years ago. The agricultural harvest is also reported to be good. The main increase in output, however, has been in the oil sector where output will probably be up to 20 per cent higher than last year.

CONFIDENTIAL

10. Information on real incomes is also scarce. Farmers are reported to be benefiting from higher naira prices for their crops. Urban workers, however, are suffering. The small sample of firms to which we spoke, have awarded wage increases in the 25-30 per cent range this year. At a time when food prices have been rising at an annual rate of more than 60 per cent, this has caused real hardship with nutrition levels reported anecdotally to be falling in cities. Industrial assembly line workers typically earn about Naira 200 a month - equivalent to £20 at the official exchange rate or £13 at the parallel rate. This makes them among the lowest paid workers in the world. Skilled mechanics earn perhaps naira 1000 a month at the biggest transport firm in Nigeria. Government clerks are in the middle.

11. The out-turn on the current balance of payments is likely to be significantly better than the deficit of more than \$2 billion predicted by the IMF. The major factor has been the increase in oil production and prices. The managing director of Shell (Nigeria) - please protect - confirmed that production had been as high as 1.8 mbd compared to the OPEC quota of 1.5 mbd. Since Shell produces two-thirds of Nigeria's oil, he is in a position to know. Domestic consumption is around 260,000 barrels a day. This suggests that Nigeria's oil export earnings are likely to be about \$9 billion this year compared to \$6 billion assumed in the original IMF programme.

12. A puzzling feature, however, is that these higher foreign exchange receipts have not appeared in the Central Bank's cash flow statistics. There are several possible explanations for this. First the Nigerian National Petroleum Corporation (NNPC) may have had to pay off arrears to its joint venture partners. Second NNPC may have had to increase spending on both maintenance and new investment. Third, some of the revenues may have been siphoned into off-budget spending eg by the armed forces. Fourth, some oil has been 'lent' to overseas oil companies and refineries. Shell's view was that this last might amount to at least 10 million barrels, worth close to \$200 million on a 1 year contract. Fifth, the Nigerians are buying back debt. The Central Bank in Lagos denied this flatly but AAA told us in July that he was buying back Nigeria's debt at a substantial discount.

CONFIDENTIAL

13. Nevertheless, a substantial part of oil revenue remains unexplained. The Budget Ministry and the Central Bank are both concerned about this, and are pursuing NNPC. The IMF is also focusing on the problem. Donors, of course, will be most concerned if revenue has been devoted to non-essential items at the expense of debt service or priority imports. We know that the US embassy in Lagos is particularly exercised about this.

14. The increase in oil revenues is likely to outweigh an upward revision to interest payments as a result of higher world rates. It will also offset any likely rise in imports since although these are probably now recovering, they were depressed by foreign exchange shortages at the beginning of the year. The end result is that the current deficit - if properly measured would be well below \$2 billion. Nigeria's desire to disguise the extent of overproduction of oil may well distort any published figures.

15. Within the capital account, Nigeria has also had a major windfall gain in the form of \$2 billion from Shell and its partners to increase their equity stake from 20 per cent to 40 per cent. The money was apparently paid in July but has not appeared in the official reserves. It is being hoarded by NNPC for financing future investment both at home and in downstream facilities abroad. It is doubtful, however, whether the latter is a good use of scarce foreign exchange resources when demands at home are so pressing. Donors are likely to query this.

16. The Nigerians have now cleared the way for disbursement of the second \$250 million tranche of the IBRD's Trade and Investment Policy Loan. The World Bank has also disbursed \$150 million for projects. The first \$100 million of Japan's concessional co-financing with the IBRD has also been disbursed and the second \$100 million should be available with the TIPL. The French \$10 million has been delayed waiting for completion of their Paris Club bilateral. The US has disbursed \$15 million of its promised \$25 million. The German soft loans of \$60 million have also been delayed, largely on the Nigerian side. The first tranche of the untied \$40 million of the UK's \$100 million has been disbursed and

CONFIDENTIAL

CONFIDENTIAL

the untied \$10 million for drugs is to be disbursed shortly but the \$15 million of tied money has been subject to delays. British businessmen in Nigeria voiced a chorus of complaints about the dilatory performance of the Crown Agents - particularly when they had to make naira deposits months ago in anticipation of the foreign exchange.

17. On balance, though, the flow of foreign exchange receipts has been enough to allow the Central Bank to increase reserves by \$900 million since the beginning of the year. This includes SDR 45 million a month since April which has been put into an escrow account with the Bank of England to meet payments due to Paris Club creditors. An important payment of £60 million is due to ECGD at the end of the month. The commercial banks are also currently waiting on payments. It will be important for Nigeria's credibility that it is at least up to date with official creditors at the time of the Consultative Group meeting.

18. The greater availability of foreign exchange has allowed the Central Bank to fund the auction market more fully and recently it has been supplying about \$60 million a week. The official rate has been relatively steady at Naira 7.4 to the dollar since the spring. The parallel rate available through the legal bureaux de change remains at Naira 10.6 - a discount of 40 per cent. This is a narrower gap than early in the year but is disconcertingly large.

19. A paradoxical fact about the exchange market is that at least some commercial banks now claim to have adequate foreign exchange but are having difficulty finding customers who can raise the naira deposits. At the same time, there is clearly excess demand for foreign exchange in the parallel market which is supplied partly probably from the proceeds of informal cross-border trade. The IMF will be pursuing unification of the two exchange rates on a free market basis but has no concrete idea as to how this might be achieved without setting off a further round of inflation. I suggested a crawling peg as in Mexico at least to hold the present competitive gains. It would give the wrong

CONFIDENTIAL

CONFIDENTIAL

message to the nascent recovery in agriculture, non-oil exports and import substitution if the Nigerians were to allow their temporary foreign exchange windfall to lead to an overvalued naira.

Prospects for 1990

20. The outlook for 1990 depends heavily on the Nigerians ability to maintain tight control of the budget. AAA cannot rely on a further rise in oil revenues. There is a risk first that output will be lower than this year's 1.7 mbd. Indeed, the Energy Minister Lukman on his return from the recent OPEC meeting ordered Shell to reduce production by 5-10 per cent. This may be temporary but we cannot rule out downward pressure on output. Our own internal forecasts are also for a slight reduction in oil prices. On the assumption of no change in the naira exchange rate, this implies the government's main revenue source will be broadly flat or even fall in naira terms.

21. On the expenditure side, however, inflation will put upward pressure on public sector wage and other costs. Ministers and states have been told - as this year - to plan on no nominal increase but realistically expenditure is likely to rise. The cost of servicing both domestic and external debt will also increase as a result of higher interest rates. The combination of sluggish revenue and rising expenditure suggests upward pressure on the budget deficit - in contrast to the Nigerian assertion that the deficit will fall to 5 per cent of GDP. The IMF Staff are concerned about this and will tackle the Nigerians both on this visit and on a further visit planned for December when the budget will be finalised. Jimenez, the Fund mission leader, told us that there was a difference between the IMF and the World Bank on this. I encouraged him to back his judgement.

22. Further spending economies will need to fall on both capital and current spending as long as the Nigerians refuse to tackle some of the most costly distortions. Petrol remains at 25p a gallon for private motorists and 16p for commercial vehicles. The 500 mile flight from Lagos to Kaduna costs £18 at the official exchange rate or about £12 at the parallel rate. These distortions must lead to a huge waste of resources.

CONFIDENTIAL

23. The only crumb of comfort is that Edozien claimed that the Budget Ministry would if necessary trim the fiscal deficit to match the external finance available. The extent of the need for external finance is still unclear. The IBRD and the Nigerians have both done calculations. We await the IMF's assessment. There seems broad agreement that on relatively conservative assumptions about oil exports and after allowing for an increase of about 5 per cent in the volume of imports, the current deficit might widen from less than \$1 billion this year to \$2-2½ billion in 1990. I have sketched some preliminary figures in the attached table.

24. Direct investment in the form of unremitted profits should provide some \$0.8 billion and the multilaterals will provide about \$0.6 billion net including a policy-based financial sector loan of \$0.5 billion from the IBRD. Both the Nigerians and the IBRD are assuming that the Paris Club will reschedule 100 per cent of principal and interest due between May and December 1990 on the same basis as the 1989 rescheduling. The Nigerians, however, are due to pay some \$0.5 billion in arrears and in repayments on post cut-off debt so that the net contribution on post cut-off debt so that the net contribution from official creditors will be smaller than in 1989. Small net repayments are due to commercial banks. On the assumption of no net change in reserves for the year as a whole, this leaves a gap of \$0.6 billion to be filled at the Consultative Group.

25. This is likely to be a tall order. The group is likely to look first to Japan and the UK. The Japanese representative in Lagos told us that he was recommending to Tokyo that Japan should repeat last year's offer of \$200 million concessional co-financing with the IBRD and \$100 million of Ex Im Bank credits at market rates if necessary. AAA did not accept this latter in 1989. Tokyo has not committed itself for 1990 yet. But if the UK provides \$100 million again, there would still be \$2-300 million to find from other donors. The role of the Saudis will be important. The FCO is currently sounding capitals. We also need to test carefully whether the Nigerians have accumulated undisclosed foreign exchange assets on which they can draw.

CONFIDENTIAL

26. We shall be submitting to you separate advice on the range of issues that we shall need to address before the Consultative Group meeting but I thought that you and others might value a first hand report from Lagos to set the scene.

A R H Bottrill

A R H BOTTRILL

CONFIDENTIAL

BALANCE OF PAYMENTS AND EXTERNAL FINANCE

\$ Billion

	1989	1990
Exports	9.9	8.9
Oil	(9.0)	(8.0)
Non-oil	(0.9)	(0.9)
Imports	<u>-6.0</u>	<u>-6.7</u>
Trade balance	3.9	2.2
Interest payments	-2.4	-2.6
Other invisibles	<u>-2.0</u>	<u>-2.0</u>
Current balance	-0.5	-2.4
Direct investment ow oil equity	2.8 (2.0)	0.8
IMF	0	0
Multilaterals	<u>0.6</u>	<u>0.6</u>
In: IBRD	0.7	0.7
AFDB	0.1	0.1
Out: IBRD	-0.2	-0.2
Paris Club	<u>1.1</u>	<u>0.4</u>
In: New Credits	0.3	0.1
Rescheduled interest	0.9	0.8
Rescheduled principal	1.1	1.4
Out: PRD and current principal	-1.1	-1.4
Post cut-off	-0.1	-0.2
Arrears from 1988	0.0	-0.3
Banks (net)	-0.1	-0.1
Net lending	-2.0	0
Errors and omissions	-0.9	0
Change in reserves	-1.0	0.0
Financing gap	-	0.6

CONFIDENTIAL



FROM: J M G TAYLOR
DATE: 20 OCTOBER 1989

A large, stylized handwritten signature in the top right corner of the page.

MR R K POWELL (AEF2)

cc PS/Chief Secretary
PS/Economic Secretary
Mr Wicks
Mr H P Evans
~~Mr A Allan~~
Mr Mountfield
Mr Pickering
Mr Bottrill

SOUTH AFRICAN COMMERCIAL BANK DEBT RESCHEDULING

The Chancellor was grateful for your note of 19 October.

Handwritten initials, possibly 'JMGT', located below the main body of text.

J M G TAYLOR



[Handwritten signatures and initials]

FROM: J M G TAYLOR
DATE: 23 OCTOBER 1989

MR A R H BOTTRILL

cc Sir P Middleton
Mr Wicks
Mr H P Evans
Mr A C S Allan
Mr Mountfield
Mr Pickering
Mr R K Powell

PWP

VISIT TO NIGERIA

The Chancellor was grateful for your note of 19 October.

2. He has noted (your para 25) that the possible Japanese offer would include, inter alia, \$100 million of Exim Bank credits at market rates if necessary, and that AAA did not accept this in 1989. He wonders whether we could consider making any offer which we ourselves might make - and he is not enthusiastic - conditional on the Nigerians accepting this proposal.

[Handwritten mark]

J M G TAYLOR