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TO PRIORITY F C O

TELEGRAM NO 36 OF 19 FEBRUARY

*IMF discussion
of UK economy.*

IMF: UK CONSULTATIONS

1. THERE WAS A FULL DISCUSSION, IN WHICH MOST DIRECTORS SPOKE. *mt*
MANAGING DIRECTOR'S SUMMING UP FOLLOWS BY BAG.
MAIN POINTS MADE WERE AS FOLLOWS.

2. BROAD SUPPORT WAS EXPRESSED FOR THE OBJECTIVES AND APPROACH
OF THE ECONOMIC STRATEGY, AND FOR THE VIEW THAT SUSTAINABLE GROWTH
REQUIRED LOWER INFLATION AND BETTER PRODUCTIVITY. CONCERN WAS
HOWEVER EXPRESSED ABOUT THE HEAVY COST IN TERMS OF THE REDUCED
OUTPUT AND EMPLOYMENT, AND ABOUT THE UNCERTAINTY WHEN THE LONGER-
TERM OBJECTIVES WOULD BE ACHIEVED.

3. MOST DIRECTORS ACCEPTED THAT IN SPITE OF THE OVERSHOOT OF THE
STERLING M3 TARGET RANGES, THE DEGREE OF FINANCIAL STRINGENCY HAD
INDUCED A SIZABLE REDUCTION IN INFLATION. THEY NOTED THAT NO
SINGLE MONETARY AGGREGATE WAS LIKELY TO BE A WHOLLY RELIABLE
TARGET VARIABLE, BUT AGREED THAT TARGETS SHOULD BE SET AS A BROAD
GUIDE TO POLICY.

4. THE IMPROVED PRICE AND WAGE PERFORMANCE IN 1981 WAS RECOGNISED,
AND CONTINUED MODERATION WAS SEEN AS ESSENTIAL. QUITE A NUMBER OF
DIRECTORS FELT, HOWEVER, THAT IN SPITE OF THE DEPRECIATION OF
STERLING DURING 1981, THE PRESENT LEVEL OF THE EXCHANGE RATE WAS AN
OBSTACLE TO A SUSTAINED RESUMPTION OF GROWTH, AND SUGGESTED THAT
SOME FURTHER DEPRECIATION WAS WARRANTED PROVIDED THAT THE
INFLATIONARY EFFECTS COULD BE CONTAINED, WITH SOME DIRECTORS
BELIEVING THAT SOME FORM OF INCOMES POLICY OR CONSENSUS MIGHT PLAY
A PART IN THIS PROCESS. STRONG SUPPORT WAS EXPRESSED FOR THE
EFFORTS TO CONTAIN PUBLIC SECTOR PAY.

5. DIRECTORS COMMENTED THAT THE BUDGET NOW APPEARED TO BE IN BETTER
CONTROL, BUT THAT FISCAL RESTRAINT HAD BEEN ACHIEVED BY RAISING
TAXATION AND CUTTING PUBLIC INVESTMENT. DIRECTORS ENDORSED THE
STAFF VIEW THAT IF THERE WAS ANY ROOM FOR TAX CONCESSIONS THIS
SHOULD BE USED TO REDUCE THE BURDEN ON THE COMPANY SECTOR, BUT
THAT IT SHOULD BE LIMITED BY THE NEED TO REDUCE PUBLIC SECTOR
BORROWING RELATIVE TO GDP.

6. DIRECTORS WELCOMED THE CONTINUED OPENNESS OF THE ECONOMY TO
INTERNATIONAL TRADE AND FINANCE, BUT REGRETTED THE REDUCTION IN
OVERSEAS AID AND HOPED THAT THIS WOULD BE REVERSED.

7. FULL REPORT OF DISCUSSION FOLLOWS BY SAVINGRAM.

8. PLEASE ADVANCE TO LAVALLE (TREASURY) AND GILCHRIST (BANK OF
ENGLAND).

ANSON

[ADVANCED AS REQUESTED]

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