

Handwritten notes: "Handwritten notes: 'Economic Review' 'Western Bank' '27 Aug 82' (x5)

ADVANCE COPY

IMMEDIATE

Mr Coles, N°10 D.S. (2)  
Mr Hannay (in lieu of Mr Evans)  
Mr Litter, HM Treasury  
Mr Balfour, Bank of England  
RC

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GRS 605

Prime Minister

CONFIDENTIAL

FM OTTAWA 061810Z SEP 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 427 OF 06 SEPTEMBER

A.S.C. 7/9

FOLLOWING FOR PRIME MINISTER FROM CHANCELLOR OF EXCHEQUER AT IMF/IBRD MEETINGS IN TORONTO

1. THESE MEETINGS HAVE SO FAR INCLUDED THE IMF INTERIM AND DEVELOPMENT COMMITTEES, TWO MEETINGS OF THE GROUP OF 5 FINANCE MINISTERS AND ONE EACH OF THE GROUP OF 7, THE GROUP OF 10, WORKING PARTY THREE OF OECD, AND THE GROUP OF SENIOR OFFICIALS OF 6 MAJOR COUNTRIES ON THE IDA PROGRAMME.

2. THERE HAS BEEN SERIOUS CONCERN ABOUT THE STATE OF THE WORLD ECONOMY AND MORE EXPLICIT PRESSURE FROM THE LDCS FOR A CHANGE OF POLICY BY THE INDUSTRIAL COUNTRIES. BUT LAROSIERE HAS RENEWED HIS ADVICE THAT IT WOULD BE A MISTAKE TO CHANGE COURSE AWAY FROM FIGHTING INFLATION AND CONTROLLING BUDGET DEFICITS; AND THERE WAS NO SERIOUS MOVE TO CHALLENGE THIS ADVICE IN THE INTERIM COMMITTEE.

3. US REPRESENTATIVES CONTINUE TO EXPRESS OPTIMISM ABOUT UPTURN IN THE US ECONOMY WITH RESUMED GROWTH IN COMING MONTHS; THEY PREDICT A FOUR AND A HALF PER CENT GROWTH RATE IN 1983. THEY ARE ABLE TO POINT TO SOME MILDLY ENCOURAGING FIGURES FOR RETAIL SALES, HOUSING STARTS AND INDUSTRIAL PRODUCTION FOR JULY TO SUPPORT THE HOPEFUL DEVELOPMENTS ON INTEREST RATES AND IN THE STOCK MARKETS. THERE IS PROBABLY A FAIRLY WIDESPREAD ACCEPTANCE THAT SOME RECOVERY IS IN PROSPECT IN THE US BUT MUCH SCEPTICISM ABOUT THE FOUR AND A HALF PER CENT FORECAST, AND SOME FEAR THAT THE RECOVERY MAY NOT BE SUSTAINED. THIS COMES BACK TO THE QUESTION WHETHER THE US BUDGET DEFICIT WILL BE SET ON A CONVINCING DECLINING PATH AND WHETHER THE FALL IN INTEREST RATES CAN BE CONSOLIDATED AND EXTENDED. THERE IS NO EXPECTATION OF AUTONOMOUS RECOVERY IN EUROPE UNLESS THE STATE OF THE US ECONOMY IS SUCH AS TO SUSTAIN IT.

4. THE WORRIES ABOUT RECOVERY ARE OF COURSE REINFORCED BY CONCERN ABOUT THE BANKING SYSTEM AND IN PARTICULAR ABOUT THE SITUATION IN LATIN AMERICA. IT IS CLEAR THAT THE TRANSITION BETWEEN PRESIDENTS IN MEXICO IS MAKING IT MORE DIFFICULT TO GET NECESSARY MEASURES OF ADJUSTMENT OR TO MAKE PROGRESS IN DISCUSSIONS WITH THE IMF, AND IS ENCOURAGING COUNTER PRODUCTIVE ACTION LIKE THE NATIONALISATION OF THE BANKS. AS WITH POLAND THERE IS NO ESCAPE FROM LABORIOUS STEP BY STEP NEGOTIATION WITH THE MEXICAN GOVERNMENT (WITH A PRESIDENT INCLINED TO OVER-RULE PURELY FINANCIAL ADVICE) ON THE PART OF THE US THE IMF THE BIS AND THE PRIVATE BANKS. I AM DEVOTING A CONSIDERABLE PART OF MY MAIN IMF SPEECH TO A CAREFUL STATEMENT OF THE STEPS WE SHOULD TAKE TO IMPROVE THE PROSPECTS AND STABILITY OF THE INTERNATIONAL BANKING SYSTEM.

5. ON IMF/IBRD BUSINESS THE TWO KEY ISSUES HAVE BEEN THE EIGHTH REVIEW OF QUOTAS AND IDA. ON THE FORMER, ONE CAN DETECT THE MAKINGS OF A CONSENSUS ON ENLARGING THE FUND FROM 61 BILLION SDRS TO 100 BILLION FOR THE PERIOD 1985-1990, BUT THE US IS STANDING OUT ALONE FOR A MUCH LOWER FIGURE. THEIR PROPOSAL FOR A SEPARATE NEW EMERGENCY IMF FACILITY (PERHAPS OF 15-25 BILLION SDRS), (WHICH WOULD BE FINANCED BY BORROWING AND USED APPARENTLY FOR LARGE SPECIAL CASES LIKE MEXICO) HAS NOT BEEN CLEARLY DEFINED, WOULD TAKE AT LEAST A YEAR TO PUT IN PLACE AND IS WIDELY SEEN BY SOME AS A DIVERSIONARY TACTIC. THE IDEA MAY HAVE SOME MERIT BUT IT HAS CERTAINLY NOT BEEN HELPFUL TO INTRODUCE IT WITH LITTLE WARNING AND WITH MARKED LACK OF CLARITY. ON IDA, THERE HAS BEEN CONSIDERABLE PRAISE FOR THE READINESS OF THE UK TO GO BEYOND PROPORTIONALITY WITH REDUCED US CONTRIBUTIONS AND THUS TO MAINTAIN A BETTER FLOW OF FUNDS FOR CONCESSIONAL DEVELOPMENT ASSISTANCE.

6. THE FOLLOW-UP WORK TO THE VERSAILLES SUMMIT UNDERTAKINGS ON  
MONETARY COOPERATION HAS BEEN FRANKLY DISAPPOINTING. MINISTERIAL  
DISCUSSION OF THE INTERVENTION STUDY TOOK US NO FURTHER  
FORWARD: BUT OFFICIALS WILL AIM TO COMPLETE THE STUDY BY THE  
SPRINGM NOR DID WE MAKE MUCH PROGRESS IN G5 DISCUSSION WITH  
LAROSIERE ABOUT CONVERGENCE OF POLICY IN SUPPORT OF MORE  
STABLE EXCHANGE RATES: IN MY PLENARY SPEECH TOMORROW  
I SHALL TRY TO GINGER THIS UP A BIT.

7. THESE PARTICULAR ANNUAL MEETINGS WILL PROBABLY  
NOT BE SEEN AS ANY SORT OF MILESTONE BUT  
AT LEAST AT THIS STAGE SEEM UNLIKELY TO PRODUCE ANY DAMAGING  
RESULTS. THE GENERAL RECOMMITMENT TO A COUNTER INFLATIONARY  
STRATEGY IS ENCOURAGING: AND THE FLAVOUR OF DISCUSSIONS ON  
BANKING AND DEBT ISSUES IS MUCH LESS APOCALYPTIC THAN THE PRESS  
WOULD WISH TO SUGGEST.

8. ON ARGENTINE, SEE MIFT (NOT TO ALL)

9. PLEASE ADVANCE TO COLES (NO 10) , EVANS (FCO ) LITTLER(HMT)  
AND BALFOUR(BANK).

MORAN

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