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Prime Minister ²
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RECORD OF A DISCUSSION BETWEEN THE CHANCELLOR OF THE EXCHEQUER
AND THE IMF MANAGING DIRECTOR AT 6.00 PM ON APRIL 28, 1983

Present: Chancellor
Governor
Mr. Loehnis
Mr. Kerr

M. de Larosiere
Mr. Carter

G5

The Chancellor expressed warm appreciation of M. de Larosière's paper for discussion at the G5 meeting on April 29. The process of mutual surveillance, to which the meeting on April 29 would contribute, was one to which he attached considerable importance, and he hoped that the Managing Director would be prepared to pursue his analysis pretty firmly. M. de Larosière said that he had welcomed the support which the Chancellor had given in the two previous such discussions. He hoped that the Chancellor would again stress the relationship between high budgetary deficits and high interest rates. In the previous discussions, some of the other participants had been reluctant to press the obvious lesson on the Americans: the French understandably felt debarred by their own domestic circumstances from preaching to the United States, but he hoped that Dr. Stoltenberg would weigh in more strongly on this occasion than he and his predecessor had done in the past.

Argentina

The Chancellor explained the political difficulties for the United Kingdom Government of selling the line that "business as usual" should prevail in financial relations. This difficulty was enhanced by reports of Argentine arms purchases. And it was still further increased by the fact that the Argentines were demonstrably following a different rule, since discriminatory restrictions on UK banks and companies remained in force. Such discrimination was in breach of the understanding on which the IMF loan had been concluded. If it persisted, the July drawing on the loan should surely be blocked.

M. de Larosière agreed that if the discriminatory restrictions persisted, and represented a breach of a key Fund principle, The Argentine authorities were committed to removing all such restrictions by July. If they did not, there could be no July drawing. He would see an Argentine representative on May 2, and would explain this to him forcefully.

The Governor said that he was currently in touch with the Argentines through Mr. McNamar in the US Treasury. The message for Buenos Aires, which would come best from the Managing Director, should be that all discrimination against banks and commercial companies must cease and that if it did not cease, not only would the flow of IMF funds stop, but so would flows from commercial banks. The problem in Buenos Aires was with the Airforce officers: the Army and Navy officers apparently recognised that discriminatory measures would have to be lifted.

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/M. de Larosiere

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M. de Larosière said that Central Bank and Finance Ministry spokesmen in Buenos Aires had told IMF representatives that the issue was political, and outwith their control: they had advised that it be pursued by diplomacy behind the scenes, and without any public denunciations. They had also warned that it was far from certain that the restrictions would be lifted. However, he intended to take a very firm line: if restrictions remained in force, the July drawing would not take place.

SDRs

M. de Larosière said that the Fund staff paper for discussion in the Board in July would be an objective analysis, with no specific proposal. He hoped that the analysis would cover all the points which the Chancellor had raised in his Development Committee speech. The first step was certainly to establish the facts. He was, however, inclined to think that there could be a case for a new SDR issue. Did the Chancellor rule one out? The Chancellor said that he had an open mind. Our own studies had been inconclusive, and we awaited the Fund paper with considerable interest.

M. de Larosière said that there would probably be two discussions in the Executive Board--in July and in September: depending on how they went, he hoped to be in a position to put a proposition to the Interim Committee in late September.

Hungary

M. de Larosière said that the Hungarian Vice-Premier had sent him a personal letter describing current debate in Budapest on the timing of a further move towards economic liberalisation. The move sounded highly desirable, but the suggestion was that it could only be made quickly if the current IMF programme, which would run out at the beginning of 1983, were replaced or subsumed by a further programme covering a further two years, and involving a larger stand-by. The Hungarians were, in fact, observing the targets laid down in the current programme and hoped for a current account surplus of \$500 million in this calendar year. They would be talking to the Fund in July: and the proposed new programme might be considered by the Board in September.

The Chancellor said that he did not exclude the idea of a further programme. It would certainly be good to encourage more liberalisation in Hungary. The Governor noted that the Hungarians were suffering from a leakage of some \$30 million per month through Western commercial banks failing to renew lines of credit. Perhaps this played a part in the Hungarian motives in seeking a new Fund programme. What would happen if the programme were not agreed? The Managing Director said that the Hungarians maintained that in that event further liberalisation would have to wait until 1986 or 1987. But it could not be excluded that hard-liners in Budapest would ensure that it did not happen at all. Whittome was very keen to extend further Fund support: the Managing Director would maintain an open mind, at least until after the July discussions.

J.K.

J.O. Kerr
April 29, 1983
Washington DC

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