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IMF/IBRD ANNUAL MEETINGS 1983

1. THE 1983 ANNUAL MEETINGS, AND THE ASSOCIATED DISCUSSIONS IN G10, THE IDA (DEPUTIES), AND THE INTERIM AND DEVELOPMENT COMMITTEES, TOOK PLACE AT A TIME WHEN THERE IS FIRM EVIDENCE THAT THE WORLD ECONOMIC RECOVERY IS FULLY LAUNCHED. DESPITE EARLIER FOREBODINGS OF COLLAPSE THE INTERNATIONAL FINANCIAL SYSTEM IS STILL INTACT, AND WIDESCALE DEBT DEFAULT HAS BEEN AVOIDED, THANKS TO ECONOMIC ADJUSTMENT IN THE DEBTOR COUNTRIES, FINANCIAL SUPPORT FROM GOVERNMENTS, BANK RESCHEDULINGS, AND IMF SUPPORT.
2. DESPITE THOSE HELPFUL DEVELOPMENTS, IT IS CLEAR THAT THE WORLD ECONOMY IS STILL UNDER GREAT STRAIN. ECONOMIC RECOVERY IN THE DEVELOPED WORLD HAS NOT YET MUCH BENEFITED THE DEVELOPING WORLD, INTEREST RATES ARE STILL HIGH AND THE DEBT PROBLEMS IN SOME MAJOR COUNTRIES, PARTICULARLY BRAZIL, ARE NOT YET RESOLVED.
3. THIS WORLD PICTURE SUGGESTED TWO BROAD TASKS FOR THE GOVERNORS FROM THE OVER 140 MEMBER COUNTRIES ATTENDING THE ANNUAL MEETINGS. THE FIRST WAS TO AGREE THE POLICIES FOR SUSTAINING WORLD ECONOMIC RECOVERY. THE SECOND, AND MORE IMMEDIATE TASK, WAS TO BUTTRESS THE IMF'S ABILITY TO RESPOND TO COUNTRY DEBT CRISES, AND IN PARTICULAR TO AGREE THE SCALE OF FUTURE IMF LENDING TO COUNTRIES, THE SO-CALLED "ACCESS" QUESTION ON WHICH WE HAD TABLED AN IMPORTANT PROPOSAL IN THE IMF BOARD IN JULY.
4. US ATTITUDES COMPLICATED BOTH TASKS. DESPITE SECRETARY REGAN'S STRONG DEFENCE OF US BUDGETARY POLICIES AT THE MEETINGS., FEW ACCEPT HIS ARGUMENT THAT HIGH US BUDGET DEFICITS ARE NOT A CAUSE OF THE HIGH INTEREST RATES, WHICH ADD TO DEVELOPING COUNTRIES' DEBT BURDENS AND INHIBIT RECOVERY IN THE DEVELOPED COUNTRIES. BUT. WHATEVER THE US ADMINISTRATION'S VIEWS ON INTEREST RATES, THE US POLITICAL PROCESS, IN PARTICULAR THE LACK OF AGREEMENT BETWEEN EXECUTIVE AND LEGISLATURE ON WHETHER THE DEFICIT SHOULD BE REDUCED BY TAX INCREASES OR SPENDING REDUCTIONS, IS LIKELY TO POSTPONE ANY REAL ATTEMPT TO RESOLVED THIS ISSUE UNTIL AFTER THE PRESIDENTIAL ELECTION. THE US POLITICAL PROCESS ALSO COMPLICATES THE SECOND TASK OF BUTTRESSING THE IMF. THE IMF QUOTA BILL, IMPLEMENTING THE US CONTRIBUTION TO THE EIGHTH QUOTA REVIEW, IS STUCK IN CONGRESS WITH AN UNCERTAIN FUTURE THOUGH ITS PROSPECTS SHOULD HAVE BEEN MUCH IMPROVED BY PRESIDENT REAGAN'S STRONG SUPPORT FOR THE BILL IN HIS SPEECH TO THE OPENING SESSION OF THE ANNUAL MEETINGS. BUDGETARY RESTRAINT, CONGRESSIONAL ATTITUDES, AND THE ADMINISTRATION'S PHILOSOPHICAL STANCE ALSO MAKES THE US UNWILLING PARTNERS IN THE REPLENISHMENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) AND THE SELECTIVE CAPITAL INCREASE (SCI) FOR THE WORLD BANK, WHICH WERE THE MAIN SUBJECTS BEFORE THE DEVELOPMENT COMMITTEE.

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5. THE UNITED STATES' ECONOMIC IMPORTANCE -- OVER 20 PER CENT OF WORLD GNP -- AND ITS 20 PER CENT VOTING SHARE, SUFFICIENT TO BLOCK IMPORTANT DECISIONS, IN BOTH THE IMF AND WORLD BANK, PUTS IT AT CENTRE STAGE IN INTERNATIONAL, ECONOMIC DISCUSSIONS. AND THE PRESENT STANCE OF US POLICY MAKES THAT COUNTRY THE UNIVERSAL WHIPPING BOY AT MEETINGS SUCH AS THIS. THIS POSED A DIFFICULT TACTICAL DECISION FOR THE UK. WE DID NOT WISH TO DISSOCIATE OURSELVES FROM ONE OF OUR MAJOR ALLIES. BUT AT THE SAME TIME WE DID NOT WANT TO ASSOCIATE OURSELVES WITH CLEARLY UNREALISTIC US POSITIONS.
6. ON THE WORLD ECONOMIC OUTLOOK, THERE WAS GENERAL AGREEMENT AMONG THE DEVELOPED COUNTRIES THAT RECOVERY WAS MORE VIGOROUS THAN EXPECTED, ESPECIALLY IN THE US. THERE WAS SOME CONCERN THAT THE RECOVERY WAS STILL INSUFFICIENTLY BROAD-BASED, EITHER IN TERMS OF ITS GEOGRAPHICAL SPREAD OR THE ECONOMIC SECTORS, OTHER THAN CONSUMERS, WHICH WERE BENEFITING. THE DEVELOPING COUNTRIES UNIVERSALLY THOUGHT THE RECOVERY WEAK, BENEFITING ONLY A FEW MAJOR COUNTRIES. DESPITE THESE DISAGREEMENTS, THERE WAS GENERAL AGREEMENT THAT GOVERNMENTS SHOULD CONTINUE PRESENT POLICIES OF CONTROLLING MONEY SUPPLY GROWTH, REDUCING FISCAL DEFICITS AND REMOVING SUPPLY SIDE RIGIDITIES SO THAT MARKET FORCES COULD OPERATE. OPPOSITION TO PROTECTIONISM WAS REFLECTED IN STRONG STATEMENTS IN THE G10 AND INTERIM COMMITTEE COMMUNIQUE. THE HUGE US BUDGET DEFICIT WAS GENERALLY CRITICISED. ON FUTURE PROSPECTS, THERE WAS MUCH MORE CONFIDENCE AROUND THAN AT LAST YEAR'S MEETINGS IN OTTAWA.
7. ON IMF ISSUES, THERE WAS NO OBVIOUS PROGRESS IN SECURING G10 COUNTRIES' AGREEMENT TO THE IMF MANAGING DIRECTOR'S INITIATIVE TO BORROW DOLLARS 3 BILLION. BUT THE INTERIM COMMITTEE COMMUNIQUE HELPFULLY ENDORSED THE MD'S EFFORTS AND CALLED FOR A SUCCESSFUL CONCLUSION TO HIS NEGOTIATIONS WITHOUT DELAY. IT REMAINS TO BE SEEN WHETHER THIS WILL MOVE THE EUROPEAN CENTRAL BANKERS, ESPECIALLY THE FRG'S GOVERNOR POEHL.
8. THE TOUGH, UNCOMPRISING SPEECH OF MR REGAN, US TREASURY SECRETARY, TO THE INTERIM COMMITTEE, TOGETHER WITH THE DISCLOSURE IN THE NEWSPAPERS OF HIS HARD NEGOTIATING POSITION, DID NOT BODE WELL FOR AGREEMENT ON NEW ACCESS LIMITS TO FUND RESOURCES. BUT AFTER TWO "MINISTERS' ONLY SESSIONS", THE INTERIM COMMITTEE AGREED THE PROPOSAL, TABLED BY OURSELVES IN JULY, FOR A "TWO-TIER" SYSTEM OF ACCESS, LASTING FOR ONE YEAR ONLY, WHICH BRIDGES THE US POSITION AND THE VIEWS OF OTHER G10 COUNTRIES AND THE MORE MODERATE LDCs. BUT AMID SCENES OF SOME DRAMA DURING THE LAST STAGES OF COMMUNIQUE DRAFTING, DR SINGH (GOVERNOR, RESERVE BANK OF INDIA) WHO HAD RESERVED HIS GOVERNMENT'S POSITION IN THE LAST CLOSED MINISTERIAL SESSION, REPORTED THAT HIS GOVERNMENT COULD NOT AGREE WITH THE TWO TIER SYSTEM PROPOSED. HE WAS QUICKLY SUPPORTED BY THE CHINESE CENTRAL BANK GOVERNOR (MR LU) THE ALGERIAN CONSTITUENCY (WHO ALSO REPRESENT THE IRANIANS) AND, WE THINK, AN AFRICAN CONSTITUENCY LED BY THE FINANCE MINISTER OF ZIMBABWE, MR CHIDZERO. AFTER DISCUSSION, IT WAS AGREED THAT THE COMMUNIQUE SHOULD STAND BUT WITH THE RESERVE THAT A FEW MEMBERS OF THE COMMITTEE DID NOT AGREE WITH ALL THE CONCLUSIONS ON ACCESS LIMITS. IT REMAINS TO BE SEEN WHETHER

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THE AGREEMENT WILL HOLD WHEN THE EXECUTIVE BOARD TAKES THE FINAL DECISION. IT WILL NEED ONLY ONE OR TWO BACKSLIDERS TO JOIN WITH THE INDIANS AND THEIR SUPPORTERS TO FRUSTRATE THE NECESSARY 85 PER CENT MAJORITY. A GOOD OUTCOME FROM OUR VIEW POINT, IF IT CAN BE MAINTAINED, THOUGH AS MY FRENCH COLLEAGUE OBSERVED, THE LDCS WILL NO DOUBT MAKE POLITICAL CAPITAL FROM THE FACT THAT OPPOSITION BY THE REPRESENTATIVES OF HALF THE WORLD'S POPULATION WILL NOT BE SUFFICIENT TO SECURE THE 15% OF THE VOTES IN THE EXECUTIVE BOARD NECESSARY TO BLOCK THE PROPOSAL.

9. THE TONE OF THE DEVELOPMENT COMMITTEE, UNDER THE CRISP CHAIRMANSHIP OF KHAN, WAS MODERATE WITH LDCS MAKING THEIR CASE IN BALANCED TERMS. THE CHANCELLOR, IN A WELL-RECEIVED SPEECH, ARGUED THAT DEBTOR COUNTRY PROBLEMS COULD ONLY BE SOLVED BY A WELL-JUDGED MIXTURE OF EXTERNAL FINANCE AND DOMESTIC REFORM. HE CAUTIONED GOVERNMENTS AGAINST EXCESSIVE INTERVENTION AND HE URGED THE DEVELOPING COUNTRIES TO DO MORE TO CREATE A HOSPITABLE CLIMATE FOR INWARD INVESTMENT, A POINT WHICH WAS EMPHASISED IN THE COMMUNIQUE. ON THE SCI, THERE SEEMS TO BE GROWING AGREEMENT FOR AN INCREASE AROUND DOLLARS 8 BN, THOUGH THE US ARE STILL STICKING AT DOLLARS 3 BN. DESPITE PRESSURE FROM MANY COUNTRIES, INCLUDING THE UK, THE US ARE STILL RESOLUTELY OPPOSED TO AN IDA 7 ABOVE DOLLARS 9BN. MOST OTHER DEVELOPED COUNTRIES COULD ACCEPT UP TO DOLLARS 12 BN, COMPARED WITH THE MANAGEMENT'S BID FOR DOLLARS 16BN.

10. PRESIDENT REAGAN, IN AN IMPRESSIVE SPEECH, EMPHASISED THE CONNECTION BETWEEN ECONOMIC PROGRESS AND PERSONAL FREEDOM. HE URGED GOVERNMENTS NOT TO OVERSPEND, OVERTAX OR OVER-REGULATE. HE DEFENDED US BUDGETARY POLICY, POINTING OUT THAT PART OF THE BUDGET DEFICIT REFLECTED THE US'S DETERMINATION TO PROVIDE MILITARY STRENGTH AND POLITICAL SECURITY TO ENSURE THE PEACE OF THE WORLD. HE REFERRED TO HIS "UNBREAKABLE COMMITMENT" TO INCREASE FUNDING FOR THE IMF AND HE CRITICISED CONGRESS FOR "PARTISAN WRANGLING AND POLITICAL POSTURING" ON THE IMF QUOTA LEGISLATION. SECRETARY REGAN GAVE A ROSY ACCOUNT OF US ECONOMIC PROSPECTS. HE REPEATED US SUPPORT FOR THE IMF PROVIDED IT KEPT TO ITS TRADITIONAL ROLE OF SHORT-TERM LENDER AND DID NOT BECOME A DEVELOPMENT INSTITUTION. HIS ENDORSEMENT OF THE WORLD BANK GAVE NO SIGN OF US MOVEMENT ON IDA 7 OR THE SCI.

11. THE CHANCELLOR OF THE EXCHEQUER SAID THAT THE BRITISH GOVERNMENT'S ADJUSTMENT STRATEGY, ADOPTED FOUR YEARS AGO, WAS SHOWING GOOD RESULTS. INFLATION WAS DOWN TO AROUND 5% AND THE ECONOMY HAS BEEN GROWING AT AN AVERAGE ANNUAL RATE OF AROUND 2 AND A HALF - 3% SINCE THE TROUGH OF THE RECESSION IN THE FIRST HALF OF 1981, DESPITE UNFAVOURABLE WORLD TRADE CONDITIONS. THE CHANCELLOR DREW SIX SPECIFIC CONCLUSIONS FROM THE UK EXPERIENCE: THE STRATEGY WORKS, PERSEVERANCE IS NECESSARY, MONETARY AND FISCAL POLICY HAVE TO OPERATE IN HARMONY, A SOUND FINANCIAL STRATEGY IS ESSENTIAL, MARKET ORIENTATED POLICIES HELP RECOVERY, AND PAINFUL ADJUSTMENT PROGRAMMES ARE POLITICALLY POSSIBLE IF THEY WERE EXPLAINED TO THE PEOPLE. THESE CONCLUSIONS WERE BOTH RELEVANT AND ENCOURAGING FOR OTHER COUNTRIES. ON INTERNATIONAL DEBT, THE CHANCELLOR SUGGESTED THAT BORROWERS AND LENDERS SHOULD THINK IN TERMS OF TRYING TO

RESHAPE MATURITIES. HE CALLED FOR CHANGE IN LDC ATTITUDES TOWARD PRIVATE INVESTMENT AND SUGGESTED THAT INCREASED ATTENTION SHOULD BE GIVEN TO STRENGTHENING THE ROLE OF THE WORLD BANK AND TO MEANS OF ASSOCIATION BETWEEN IT AND PRIVATE INVESTMENT. HE THEN REFERRED TO OUR POSITION ON IMF AND IDA ISSUES AND CONCLUDED BY WARNING AGAINST THE TEMPTATION OF BLAMING INTERNATIONAL FINANCIAL DISORDER ON THE SYSTEM RATHER THAN ON THE CONDUCT OF DOMESTIC POLICIES.

12. MR STOLTENBERG, THE FRG MINISTER OF FINANCE, GAVE AN ORTHODOX STATEMENT OF GERMAN ECONOMIC POLICY. HE HINTED THAT THE FRG'S AGREEMENT TO THE IMF QUOTA INCREASE WOULD NOT BE FORTHCOMING UNLESS OTHER MEMBERS WITH LARGE QUOTAS ALSO AGREED. MR DELORS, FRENCH MINISTER OF FINANCE, EMPHASISED THE FRENCH GOVERNMENT'S DETERMINATION TO CONQUER INFLATION AND STRENGTHEN THE BALANCE OF PAYMENTS. HE CALLED FOR A STRONGER ROLE FOR THE WORLD BANK AND THE IMF AND INCREASED PRIORITY IN AID FOR SUB-SAHARAN AFRICA. HE REPEATED, THOUGH IN MUTED TERMS, PRESIDENT MITTERAND'S CALL FOR AN INTERNATIONAL MONETARY CONFERENCE. MR MAYEKAWA, THE JAPANESE CENTRAL BANK GOVERNOR DEFENDED THE JAPANESE HIGH CURRENT ACCOUNT SURPLUS AND SUGGESTED THAT THE LOW VALUATION OF THE YEN DID NOT REFLECT ECONOMIC FUNDAMENTALS. HE SAID JAPAN WAS OPENING UP MARKETS TO IMPORTS. LIKE THE CHANCELLOR, HE CALLED ON THE PRIVATE BANKS TO TALK A LONGER PERSPECTIVE IN THEIR LENDING POLICIES.

13. THE IMF MANAGING DIRECTOR CALLED FOR A REDUCTION IN THE US BUDGET DEFICIT, A CONTINUED FIGHT AGAINST INFLATION, STRUCTURAL REFORMS, PARTICULARLY IN LABOUR MARKETS, AND RESISTANCE TO PROTECTIONISM. HE DEFENDED THE FUND'S ROLE IN REQUIRING THE LDCS TO MAKE A RAPID ECONOMIC ADJUSTMENT. THE PRESIDENT OF THE WORLD BANK GAVE A LONG REVIEW OF THE BANK'S WORK AND CALLED FOR ACTION ON IDA 7, THE SCI, CAPITAL INCREASE FOR THE INTERNATIONAL FINANCE CORPORATION, AND PRIORITY FOR SUB-SAHARAN AFRICAN.

CONCLUSION

14. MORE WAS ACHIEVED AT THE MEETINGS THAN MANY EXPECTED. THERE WAS FIRM ENDORSEMENT OF THE POLICIES FOR SUSTAINING THE ECONOMIC RECOVERY. THOUGH THE IMF MANAGING DIRECTOR'S DOLLARS 2 BILLION FUNDING INITIATIVE WAS NOT ADVANCED, PRESIDENT REAGAN'S UNEQUIVOCAL STATEMENT SHOULD HAVE IMPROVED THE PROSPECTS FOR THE US IMF BILL. THE CHANCELLOR'S PROPOSAL, ON ACCESS LIMITS, WAS AGREED AND BRIDGED US, EUROPEAN AND MODERATE LDC POSITIONS. IT REMAINS TO BE SEEN WHETHER THE AGREEMENT WILL STICK IN THE EXECUTIVE BOARD AND WHETHER RESIDUAL LDCS' BITTERNESS WILL "UNCTADIFY" FUTURE MEETINGS OF THE INTERIM COMMITTEE. THERE WAS GENERAL ENDORSEMENT OF THE WORLD BANK AND THERE ARE GOOD PROSPECTS OF AGREEMENT TO AN SCI OF AROUND DOLLARS 8BN. THERE WAS NO PROGRESS IN PERSUADING US TO CONTEMPLATE AN IDA 17 ABOVE DOLLARS 9 BILLION.

15. ALL IN ALL, MOST DELEGATES WILL LEAVE WASHINGTON WITH SOME CONFIDENCE IN THE CONTINUING WORLD ECONOMIC RECOVERY AND THE POTENTIAL FOR DEALING WITH THE MANY DEBT PROBLEMS WHICH STILL REMAIN. AS THE CHANCELLOR SAID IN HIS SPEECH TO THE ANNUAL MEETINGS, "WE ARE NOT YET OUT OF THE WOOD, BUT WE ARE MOVING FORWARD AGAIN".

17. SPEECHES AND COMMUNIQUES ARE BEING SENT BY BAG TO LONDON AND RECORDS OF THE INTERIM AND DEVELOPMENT COMMITTEES ARE BEING SENT BY SAVINGRAM.

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THIS TELEGRAM
WAS NOT
ADVANCED