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FM UKDEL IMF/IBRD WASHINGTON 042359Z FEB 83

TO PRIORITY F C O

TELEGRAM NUMBER 77 OF 4 FEBRUARY

INFO NAIROBI

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IMF: KENYA - BALANCE OF PAYMENTS SUPPORT

1. JIMENEZ (AFRICAN DEPARTMENT) EXPAINED TO US TODAY THE OUTCOME OF THE DONORS' MEETING ON 25 JANUARY. HE ALSO ASKED WHETHER THE UK WOULD CONSIDER, AS A MATTER OF URGENCY, BRINGING FORWARD THE DISBURSEMENT OF ITS ADDITIONAL BALANCE OF PAYMENTS SUPPORT FOR KENYA PLEDGED AT THE MEETING. (SEE PARA 5 BELOW).

2. HE SAID THAT AS A RESULT OF HIS INTENSIVE BILATERAL DISCUSSIONS WITH DELEGATIONS AT THE MEETING HE HAD IDENTIFIED A TOTAL OF SOME SDR 86 MILLION AS NEW BALANCE OF PAYMENTS SUPPORT PROMISED FOR 1983. BUT MUCH OF THIS WOULD BE COMMODITY ASSISTANCE AND A PROPORTION WOULD HAVE TO BE DISCOUNTED IN RECKONING ACTUAL AVAILABILITY THIS YEAR. HIS BEST GUESS WAS THAT KENYA COULD REALISTICALLY COUNT ON AN EXTRA SDR 67 MILLION TOWARDS MEETING AN ESTIMATED FINANCING GAP OF SDR 91 MILLION.

3. TWO HELPFUL FACTORS HAD HOWEVER EMERGED. THE US GOVERNMENT HAD RELEASED A LARGE DISBURSEMENT OF BALANCE OF PAYMENTS SUPPORT IN DECEMBER. AND IT NOW LOOKED AS THOUGH IMPORTS HAD BEEN CONTROLLED MORE TIGHTLY IN 1982 Q4 THAN EXPECTED. DECEMBER HAD, THEREFORE, SEEN AN UNEXPECTED ACCUMULATION OF RESERVES. THIS PROVIDED AN UNFORESEEN AVENUE FOR MEETING THE REMAINING GAP, A PART OF WHICH HAD BEEN PREDICTED ON THE NEED TO BUILD UP RESERVES THIS YEAR. HE DID NOT THINK THAT THE UNEXPECTED IMPORT CUTS WERE LIKELY TO BE UNWOUND IN THE SHORT-TERM.

4. THE FINANCING GAP HAD, THEREFORE, BEEN MORE OR LESS CLOSED IN A STATISTICAL SENSE BUT THERE WAS A MAJOR TIMING PROBLEM REGARDING CASH FLOW. HE EXPECTED THAT MOST OF THE ADDITIONAL ASSISTANCE WOULD BECOME AVAILABLE ONLY IN THE LATER PART OF THE YEAR. HE UNDERSTOOD THAT LITTLE OF THE UK MONEY WOULD BE AVAILABLE BEFORE 1 APRIL. AND THE US GOVERNMENT HAD PROGRAMMED ALL ITS ADDITIONAL MONEY FOR THE FOURTH QUARTER OF 1983. AS THINGS STOOD, KENYA'S CASH POSITION WOULD BE EXTREMELY TIGHT IN THE FIRST QUARTER AND THE AUTHORITIES WOULD BE HARD PUT TO MEET THE CREDIT CEILINGS UNDER THE PROGRAMME.

5. JIMENEZ SAID THAT HE HAD ASKED THE AMERICANS, THROUGH THEIR AMBASSADOR IN NAIROBI, WHETHER DOLLARS 10 MILLION OF THE US SUPPORT COULD BE MADE AVAILABLE BEFORE END-JUNE. HE ALSO PUT IT TO US THAT THE UK SHOULD CONSIDER SWITCHING PERHAPS ONE-HALF OF ITS EXTRA CONTRIBUTION INTO THE PRE-JULY PERIOD. WE TOOK NOTE OF HIS REQUEST AND SAID THAT WE WOULD ENQUIRE WHAT, IF ANYTHING, COULD BE DONE. GRATEFUL IF YOU WOULD CONSIDER JIMENEZ'S REQUEST AND LET US KNOW AS SOON AS POSSIBLE WHAT ANSWER WE SHOULD GIVE.

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6. JIMENEZ ALSO TOLD US THAT THE KENYAN AUTHORITIES HAD ASKED FUND MANAGEMENT IF THE SIZE OF FUND ASSISTANCE UNDER THE PROPOSED STANDBY PROGRAMME COULD BE INCREASED. THEY THOUGHT THE SCALE OF GROSS DRAWINGS WAS SMALLER THAN HAD BEEN ALLOWED TO OTHER COUNTRIES IN SIMILAR CIRCUMSTANCES AND THIS WAS EVEN MORE TRUE OF NET DRAWINGS, GIVEN KENYA'S HEAVY SCHEDULED FUND REPURCHASES.

7. WE HAVE BEEN APPROACHED SEPARATELY BY SANGARE (EXECUTIVE DIRECTOR RESPONSIBLE FOR KENYA) WHO LAST THURSDAY ASKED THE MANAGING DIRECTOR TO GIVE FAVOURABLE CONSIDERATION TO KENYA'S LATEST REQUEST. HE SAID THAT HE HOPED THAT IT WOULD BE POSSIBLE FOR US TO PUT IN A WORD WITH MANAGEMENT ON BEHALF OF THE KENYANS. EVEN IF THINGS TURNED OUT WELL, THEIR EXTERNAL FINANCIAL POSITION THIS YEAR WOULD BE EXTREMELY TIGHT AND EVEN A SMALL ADDITIONAL DISBURSEMENT FROM THE FUND AT AN EARLY STAGE WOULD HELP ENORMOUSLY.

COMMENT:

8. MANAGEMENT IS PRESENTLY CONSIDERING HOW TO PROCEED IN THE KENYAN CASE AND WHETHER THE EXTERNAL FINANCING POSITION IS YET SUFFICIENTLY SECURE TO GO TO THE BOARD. IF WE ARE TO INFLUENCE THEIR THINKING EARLY ACTION WOULD OBVIOUSLY BE NECESSARY - PERHAPS AN APPROACH TO DALE (DEPUTY MANAGING DIRECTOR), GIVEN THAT LAROSIERE'S MIND WILL BE FULLY TAKEN UP WITH THE INTERIM COMMITTEE NEXT WEEK. BEFORE TALKING TO DALE IT WOULD BE HELPFUL TO HAVE YOUR REACTION TO JIMENEZ'S REQUEST. ON THE SIZE OF FUND ASSISTANCE, WE FEEL THAT IT WOULD BE REASONABLE TO SUGGEST A MODEST ACCELERATION IN THE PHASING OF DRAWINGS WITHOUT DEPARTING TOO FAR FROM MANAGEMENT'S WISH TO MAINTAIN LEEWAY FOR A FOLLOW-UP PROGRAMME.

9. FCO PLEASE ADVANCE TO LYCH (ODA), APPELYARD (ERD), ATKINSON (HMT) AND WILCHRIST (BANK OF ENGLAND).

ANSON

MONETARY

EAD

[ADVANCED AS REQUESTED]

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