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10 DOWNING STREET

THE PRIME MINISTER

15 May 1986

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T90/86

Dear Mr. President,

Thank you for your letter of 1 May in which you conveyed your thoughts and those of your colleagues in Latin America about the economic situation in your region.

I share your concern about the continuing macroeconomic imbalances in certain industrialised countries. We therefore agreed in Tokyo that where appropriate, we must continue with our efforts to correct such imbalances if economic growth is to be sustained. But we have already made very real progress. Interest rates have fallen considerably in the last year, exchange rates now more closely reflect economic circumstances, and the decline in oil prices, while creating very real difficulties for a number of countries, should further help to sustain economic growth.

Nevertheless, I recognise that a number of countries in Latin America face severe problems and that adjustment policies continue to place a heavy burden on them. That is why we support the United States programme for sustained growth.

It is encouraging that, working within the principles of this programme, a number of Latin American countries have reached agreement with the World Bank on new lending programmes. We hope that more will be able to do so soon. We in the United Kingdom remain willing to seek new ways of providing financial flows to debtor countries. We have

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recently signed the convention establishing the MIGA which will help to promote direct investment. We are keen to encourage sound adjustment programmes by providing early resumption of export credit cover.

We hope that indebted countries will also continue to pursue the adjustment programmes necessary to attract new finance. I especially welcome your commitment to pursue measures to curb flight of capital from certain countries in the region. Repatriation of such capital and its investment domestically by the nationals of the countries concerned would be a major signal of confidence, the importance of which should not be underestimated.

In short, I agree with you that the problem of debt remains serious. But I am confident that if we all continue to approach it in a spirit of constructive co-operation in the appropriate international institutions we can and will overcome the difficulties in a mutually beneficial way.

Yours sincerely
Rajawadee

His Excellency Dr. Julio Maria Sanguinetti.