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2. Prime Minister

Report on
IMF/Bank
meetings.

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PRIME MINISTER

Last week I attended the annual meeting of the IMF and the World Bank in Belgrade. The IMF/World Bank meetings are held two years out of three in Washington. 1979 was "leap" year. As usual, there was a 2 day meeting of Commonwealth Finance Ministers immediately preceding the IMF gathering (this time in Malta) and about 40 Commonwealth Finance Ministers flew together to Belgrade.

2. The first stage of the IMF gathering was the meeting of the Interim Committee, which now has 21 members. Most of these represent "constituencies" of countries but the UK which, with the US, was effectively joint founder and architect of the IMF, still has a seat to itself, along with the US, Germany, Japan and France. The Interim Committee (which Denis Healey chaired for 2 years) is the effective governing body of the Fund and meets twice a year. It is "Interim" because it was envisaged that it would ultimately become the "Council" of the IMF: there are however now LDC inhibitions about this step.

3. The Interim Committee decided that the Fund's Executive Board (of officials of member countries) should continue to study the proposed "substitution account" under which central banks could deposit US dollars (voluntarily) with the account and receive SDR denominated assets in exchange. This could be helpful in providing a means of diversifying out of dollars without going through and disturbing the exchange markets; and it could be a move in the direction of a better ordered monetary system: though at best its contribution overall would be modest. It would be a first deliberate step to reduce somewhat the present overwhelming role of the dollar as world reserve currency. Whether the scheme will come to fruition remains to be seen: I am somewhat doubtful about quick progress in an American and German election year.



4. The IMF/World Bank Annual Meeting itself consists only of set speeches by a number of Finance Ministers from among the now 140 members. Again, some Ministers speak for a constituency. There is an opening ceremony at which the Head of State of the host country speaks. On this occasion President Tito came and delivered a vigorous but, perhaps appropriately, partisan speech. It was mainly about the needs of the LDCs.
5. The set speeches were chiefly remarkable for the close identity of view among the developed countries about the need to give first priority in policy to inflation. There was no call for reflation. There was resigned acceptance of the prospect of low growth in the period ahead despite the consequences for employment in the developed countries and for economic progress in the developing countries. This was true of the Interim Committee discussions as well as of the Annual Meeting speeches.
6. In particular the US, Canada, Germany and ourselves found almost the same words to stress the priority we gave to fighting inflation and the need to put our own economies on a better footing before we could do more to help others. The Canadians, Australians and ourselves said the same thing at the meeting of Commonwealth Finance Ministers, and there also we encountered no direct challenge to our view. It is of course an extension of part of the message of the Tokyo Summit. But with it went a consciousness of the likelihood of low growth, heavy inflationary pressure and new problems for the LDCs.
7. I also attended most of the meeting of the Joint Development Committee of the IMF and the World Bank. During a lengthy discussion on financial flows and the adjustment process a number of propositions were recommended for further consideration by the Fund Executive Board; these included an endorsement of the role of private flows and co-financing and the need to adapt existing facilities and institutions rather than establishing new ones. I think this is right.



8. I can see the symbolic value of this gathering of the Finance Ministers and Central Bank Governors of the free world but I am left in some doubt whether the time and expense involved in gathering so many people together for several days is proportionate to the result. I understand that each year there is a post mortem and that this question is always asked. However the smaller countries are resistant to any very cavalier treatment of the occasion. The scope for any country (unless perhaps it were the US) to change the pattern radically is very limited. The press appear in great force. Representatives of the main US, British and German banks also attend. However, this time the proceedings were planned to be shortened by 1 day. The fact that they were effectively shortened by yet a further day because of the lack of governors wishing to speak in the Plenary reinforces the view shared by my officials and myself that there can be further procedural improvements in the future.

9. In the margins of the main meetings I attended a meeting of the Group of Ten countries who, with Switzerland, have a special relationship with the Fund in that they operate an agreement (the General Arrangements to Borrow) under which they lend their currencies for on-lending by the Fund when it is short of "useful" currencies for member countries' drawings. The UK has of course benefitted in the past from the operations of the GAB. This meeting renewed the GAB for a further 5 years. The G10 and the G10 Deputies (officials and central bankers) have been a useful fora for discussion of international monetary matters among like minded countries.

10. The G10 meeting is matched by other "caucus" meetings, for example of the G77.

11. I also took the opportunity of a bilateral with my Yugoslav opposite number, Petar Kostic, at which (aside from purely IMF matters) he was at pains to stress the good relations existing between our 2 countries; the importance of increasing Yugoslav trade with

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the UK and with the rest of the EEC (the Yugoslavs are concerned about their present trade imbalance and about what they regard as unfair restrictions on their exports to the Community); and his Government's total receptiveness to increasing UK participation in industrial projects in Yugoslavia.

12. What I found chiefly interesting and valuable in these meetings was to note how close we are in broad approach to economic problems to the US, Canada and Germany.

G.H.

9th October 1979

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Seen for.

18 October 1979

The Prime Minister was grateful for the Chancellor's minute of 9 October about the IMF/World Bank meetings, which she has read with interest.

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