



TRADE
Prime Minister (2)

To note

MUS 17/12

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PRIME MINISTER

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G5

You may like to have a short account of what happened at the G5 Finance Ministers' meeting on 9/10 December. Discussion concentrated on two areas: the IMF resources package, and debt problems, especially those of Brazil.

2. On the IMF package, the meeting revealed some encouraging flexibility in the United States and Japanese positions, and the prospects for an agreement in the Interim Committee improved. The Americans gave a clear hint that in the right circumstances they would be prepared to go beyond the 40 per cent increase in Fund quotas on which they are standing at present. They also gave a cautious signal of some possible movement on the limits for "extended access" to the Fund: they and the Germans and Japanese at present argue that the limits should be held at their present dollar value.

3. The Japanese for their part joined the majority in accepting that the new pre-arranged borrowing facility for the IMF should be based on the existing General Arrangements to Borrow (GAB). They had hitherto argued for a new and separate international agreement - inevitably a slower and more difficult route than building on an existing agreement.

4. There was also some movement on the contentious question of changes in IMF quota share to reflect more closely changes in relative economic strength in the postwar period. The Japanese want promotion above fifth in size of quota share, but the



French, who are fourth, will not allow the Japanese to jump over them, or perhaps even to reach full equality. The Japanese moved to a method of quota recalculation more moderate in gains for them than the one they have hitherto advocated. But I think they will have to move further, not only because of the French but also because countries like China, India, Pakistan, Bangladesh and Argentina are likely to block too large a change, since they stand to lose drawing rights in the Fund. This contentious issue may have to be resolved, at least in outline, in the Interim Committee.

5. It was the view of the Frankfurt meeting that it might be best to hold the Interim Committee in the second week of February. A final decision on that would have to be taken by about 10 January.

6. There is therefore broad agreement (not only in the G5 but also in the G10) on a quota increase which would produce a Fund in the range 85 to 100 billion SDRs (instead of 61), with a high probability for the area 90 to 95 billion. There is agreement on a reserve borrowing Facility for the Fund built on the existing GAB, which would increase from 6 billion to 15-20 billion SDRs. And there is agreement on trying to make it effective from mid-1984 instead of 1 January 1986. On most but not yet quite all other aspects there is a readiness among the developed countries to make the necessary compromises for agreement. Complete identity of G10 or G5 views would not be desirable: it might be counter-productive to appear to present a single developed country package to the LDCs.

7. I expect to know by tomorrow the outcome of the procedure for the election of the next Chairman of the Interim Committee: it looks as if we are home and dry. If so, I hope to arrange to visit Riyadh for talks with the Saudi Arabian Finance Minister and the Governor of SAMA on about 8 January. Larosiere would come with me, and we would discuss the replenishment package, for it clearly is very important indeed to secure the support of the



Saudis for what is proposed. The package would be further fortified if the Saudis were prepared to make an agreement for lending to the Fund in need on terms similar to that proposed for the GAB. Delors, the French Finance Minister, is this year's Chairman of the Group of Ten and is likely to outline what is proposed to the Saudis when he visits them in connection with France's own borrowing and oil supply treaty next week.

8. We are also making progress in G.10. On 10/12 December Sir Kenneth Couzens attended another meeting of G10 Deputies - the second in a fortnight - and it too went reasonably well. There will probably be a G10 Ministerial meeting in Paris in January.

9. I conclude that the package is on course, but many complexities and much negotiation still lie ahead if we are to reach agreement in February.

10. On debt problems, most of the discussion at Frankfurt was about Brazil. The main outcome was the arrangement for central bank assistance, which I described in my minute of 15 December. Other elements of assistance to Brazil would be IMF loans totalling nearly \$6 billion over 3 years, which have now been agreed in principle and announced; and a proposed arrangement with the commercial banks which is still to be negotiated.

11. The reports on Mexico were on the whole encouraging. The measures taken by the new President, de la Madrid, have been helpful both to confidence and to the adjustment of the Mexican economy. They include undertakings to the IMF to cut the budget deficit, raising petrol prices, the re-appointment of the previous Central Bank Governor, moves towards re-unification of the exchange markets, encouragement of foreign investment, and steps against corruption.



12. There was also a short discussion on Yugoslavia, and agreement to support a firm IMF programme. There remains some difference of view between Europeans and Americans on whether Yugoslavia should, if the position becomes acute, be pressed to reschedule, or helped with a new governmental loan.

13. Regan explained that he would like to see a system which dealt rather more automatically with these country debt problems: he felt that the United States were left to take too much of the initial strain. This did not evoke an outstandingly warm response; since it was so obviously directed at transferring more Western Hemisphere burdens to the rest of us. I pointed out that there would be dangers in an international "entitlement programme" which made reschedulings and emergency loans a right, and largely removed conditionality.

14. It was a good meeting. My new German colleague is impressive and helpful; Delors was as usual constructive; and the Japanese were as usual pretty silent. The new Finance Minister - Takeshita - did not turn up.

15. I am copying this minute to the Foreign and Commonwealth Secretary, the Governor of the Bank of England, and Sir Robert Armstrong.

G.H.

17 December 1982



PRIME MINISTER

This illustrates why I shall miss Ken Couzens such a lot, and why I really do need Hancock as his replacement - and with no gap. There is no-one else who would be half as good as either of them at this stuff, and it really is pretty important.

G.H.

17 December 1982