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4.11.82

NOTE FOR RECORD

Copies to The Governor  
The Deputy Governor  
Mr M J Balfour  
Mr Quinn (qua Task Force)  
Mr Gilchrist

Cre 5/11.

The Governor called on the Chancellor of the Exchequer at his own request on Wednesday, 3 November. The meeting took place in the Chancellor's office in the House of Commons and was attended additionally by Sir Kenneth Couzens, ADL and John Kerr.

The purpose of the meeting was to bring the Chancellor up to date on recent discussions about the international financial scene that the Governor had had with Governor Duisenberg, ~~Volcker~~ <sup>and also with</sup> Volcker and Leutwiler at dinner last Friday and with Tony Solomon and de Larosiere in New York on 1 November.

The Governor's main message to the Chancellor was that he perceived that there was an increased urgency and willingness on the part of the US Administration to resolve the IMF quota question. Volcker himself considered the matter of the utmost urgency, and believed that it was desirable, and might be possible to bring Sprinkel to accept a higher figure than he had committed himself to at the recent meeting of the G5 Deputies. It was unfortunate that as a result of that meeting Sprinkel was spreading the word that HMG would be content to see a quota increase to SDR 85 bn. In the Governor's view a 50% increase was the absolute minimum, and we would need the GAB window in addition.

The Governor said that Volcker hoped that it might be possible to advance the Interim Committee meeting to December, which would mean having a G5 or G10 meeting, whichever was appropriate, some time later this month. Assuming that this could be achieved, Volcker still thought another Interim Committee meeting in April might be

necessary, since none of the contentious issues such as access to Fund facilities and possible SDR allocations to enable ldc's to pay their quotas should be allowed to delay or clutter a clear decision on an increase to a reasonable size. The urgency for getting agreement among the industrialised countries which could be publicised soon was that a number of awkward events might converge in November - the Brazilian election and the end of the Mexican standstill.

The Chancellor and Ken Couzens agreed on the urgency of the situation. Their tactic was to secure the necessary support for the Chancellor to be Chairman of the Interim Committee - they hoped the necessary support might have been secured within the next week or so - to get French, German and Japanese agreement to a quota figure of at least SDR 90 bn (the Germans were apparently in favour, the Japanese would be when they had a Prime Minister, and the French were being seen on 4 November) and then for the Chancellor himself possibly to visit Regan to insist on the Americans agreeing to that figure. They doubted, however, whether it would be possible to achieve all of these aims within November so as to permit advancing the Interim Committee to December. The Governor stressed the importance, in this case, of at least getting the demonstration effect of agreement by the industrialised countries on a sensible increase.

There was essentially no difference in principle in the Treasury's view, although Couzens peddled a number of tactical considerations which suggested that it might be best to get the Americans to fall publicly into place only at the Interim Committee itself, in order to avoid attempts by the ldc's to raise the amounts above whatever the G5 might agree if too early agreement among them was known to have been reached. It also emerged that, with the Chancellor's agreement, Sir Kenneth Couzens had probably put rather too strongly at the G5 Deputies meeting UK willingness to accept a quota increase of SDR 85 bn, as part of a package which would include an additional SDR 10/15 bn of GAB window and advancing to the end of 1983 the date by which quotas should actually be paid over. The Governor reiterated the need to force the Americans' hand soon, and to disabuse them that we could live with a quota increase of SDR 85 bn. The Chancellor himself in Toronto had talked of SDR 90 bn being the "minimum".

There was little time left to bring the Chancellor up to date on particular problem countries, but the Governor briefly discussed the latest situation on Mexico, Argentina and Brazil - including in the latter case the news that the Brazilians had secured temporary emergency finance from the US Treasury and a small number of US banks. He mentioned as additional problem areas that needed thought and work the whole question of the provision of bridging finance in advance of an IMF programme being put in place for a problem country (the role of the BIS and central banks) and also maintaining the operation of the interbank market.

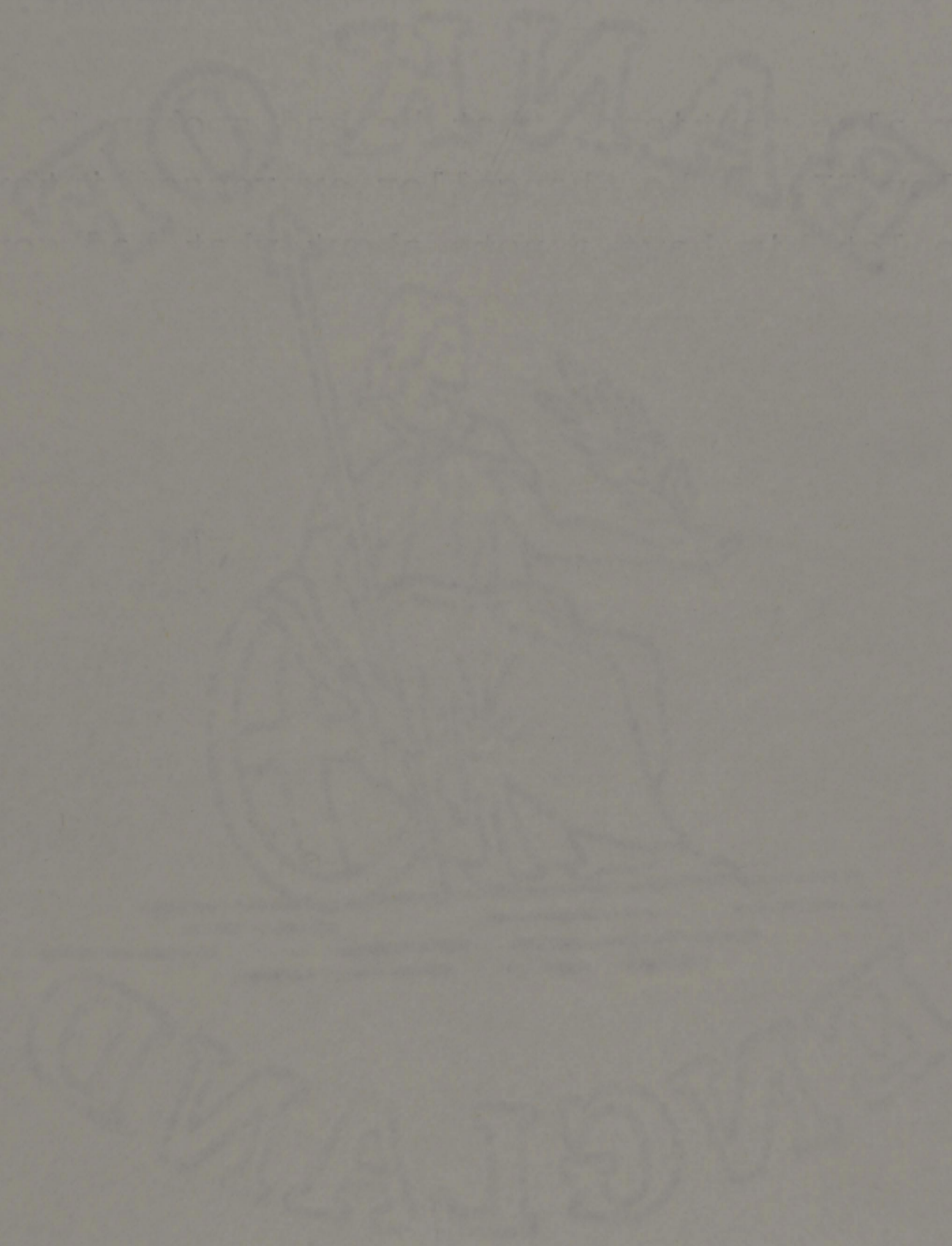
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The Governor also mentioned that he had spoken to Ogden of Chase about Ditchley II. The Chancellor expressed interest, and ADL undertook to let him have a note about what had gone on and been decided.

ADL  
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4 November 1982

ADL



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