

Add to PPS  
(S14-210)

*WV*  
*[Signature]*

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C

MR LOEHNEIS  
THE GOVERNOR'S PRIVATE SECRETARY

*This seems on the  
right lines - at least  
the positive way into*

20. 4. 83

Copies to Mr Balfour  
Mr Holland  
Mr Kent  
Mr Crawford  
Mr R N Brown

*the  
argument and the way  
the points are put  
will depend on the circumstances*

*and mood of any meeting*

IMF RELATIONS WITH COMMERCIAL BANKS

*esp the former has*

*ADL 21/4*

I attach a revised brief for the Governor, suggesting the lines on which he might speak to de Larosièrre.

20 April 1983

R H Gilchrist (4365)  
HO-3

*[Signature]*

*ADL 20/4 83*

*208*

CONFIDENTIAL

BRIEF FOR DEVELOPMENT COMMITTEE

IMF Relations with Commercial Banks

While in Washington the Governor may care to have a word with de Larosière (i) about the danger (as seen in recent IMF telex messages) of going too far towards institutionalising the Fund's co-ordinating rôle on countries' debt problems; and (ii) in the context of our concern over the sensitivities of these problems and of the banking system, about the poor impression made by Robichek during a recent visit to London.

Line to Take

The Governor might preface remarks by referring to the IMF's excellent performance during these difficult times. We have been very glad to see the Fund adopt a forceful rôle in the efforts to bring about international co-operation on debt problems; and the Managing Director's own initiatives have been very welcome.

However, we do see potential difficulties if too much powder is used in unnecessary cases. There are already limits to the amount of exhortation that central banks, each with a differing degree of influence, can be expected to exert; and one of the dangers here is that commercial banks will be increasingly reluctant to listen. But what concerns us most is the very real danger that by sending out exhortatory telexes to the financial community whenever a Fund programme is associated with commercial bank action the Fund will go too far in institutionalising its rôle. Such messages appear unnecessary in cases where there is already a good chance that banks will play their part satisfactorily or where there is no major threat to the system. Peru and Uruguay are notable examples.

The risks for the Fund include devaluing its influence, and possibly alienating the banks, to the point where it will have much less clout when support is needed in major liquidity crises. There may be a risk also of educating banks, wrongly, to take no action unless or

*I have checked that we have enough circumstantial evidence to support this statement, and it appears to be so. B banks may well assert, self-interestfully, that it is not so. HSL.*

until suitable messages are received. In this sensitive area, - while the Fund should always be watching the situation and while there is probably still room for informatory telexes - the Fund would do well to consider a more flexible approach, reserving its fire for the more important cases.

It is with similar concern that we feel it right to mention Robichek's performance, which has not been helpful. The development of relations with the banks will take time and considerable diplomacy. We wonder whether Robichek is the right man for the job. The Governor might suggest that de Larosière keep him on a tight rein.

#### Background

Further background on Robichek is as follows. Until recently, Walter Robichek was head of the Western Hemisphere Department and therefore responsible for negotiations with the Latin Americans. We believe that de Larosière was dissatisfied with his performance and "kicked him upstairs" to be an Adviser to the Managing Director. (Robichek's friends among the Latin American directors apparently prevented more drastic action). Robichek was appointed on 15 December 1982 and his contract could run until May 1984. We understand, however, that the arrangement is both informal and flexible. His brief is to examine relations between the Fund and the banks, especially in Latin America. We doubt whether his heart is really in the job.

He has made one trip to London to give talks at the Overseas Development Institute and Canning House and to meet some banks. We discovered by chance that he was coming and arranged for him to come into the Bank. His performance at each venue showed him to have little grasp of the issues and to be trapped into a purely Latin American perspective. He no longer seems to be intellectually up to the mark. His own publicly professed solution is for the banks to "accept the authority of the Fund" and provide on that basis the new money which the Fund regards as appropriate. We believe (off the record, from another member of the Fund staff), that he has written a report to de Larosière on the subject; we have not seen it. The MD also has a report from Mentré de la Loye, former French Executive Director at the Fund, which apparently is considerably more sensitive to market realities. We have not seen this report either

but have had an account of its outline from Mentré himself, to whom we gave considerable help. To add to the confusion, David Finch, Head of Exchange and Trade Relations Department, which is traditionally responsible for relations with private markets, is seeking with some success to isolate Robichek. Finch himself is angling for an invitation to attend some Cooke Committee meetings. Robichek thus threatens to be a disruptive maverick contributing little and quite unreliable.