

# CONFIDENTIAL

GRS 420

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FM BONN

TO IMMEDIATE FCO

TELNO 911

OF 241530Z SEPTEMBER 1985

INFO PRIORITY WASHINGTON, PARIS, TOKYO, OECD PARIS

INFO SAVING FRANKFURT

## GERMAN REACTIONS TO G5 MEETING

### SUMMARY

1. STOLTENBERG HAS EXPRESSED SATISFACTION WITH THE OUTCOME OF THE MEETING AND SAID THAT HE SEES NO DANGER TO THE GERMAN ECONOMY AS A RESULT OF A WEAKER DOLLAR. MOST PRESS AND BUSINESS COMMENT HAS BEEN FAVOURABLE. POEHL IS SCEPTICAL.

### DETAIL

2. AT A PRESS CONFERENCE ON 23 SEPTEMBER, STOLTENBERG EXPRESSED SATISFACTION WITH THE OUTCOME OF THE NEW YORK MEETING. THE USA HAD SET NEW ACCENTS WITH VERY CLEAR STATEMENTS. HE WELCOMED THE NEW US WILLINGNESS TO INTERVENE WITH OTHERS ON THE EXCHANGE MARKETS IN ORDER TO BRING THE DOLLAR DOWN. HE DENIED THAT HE HAD COME UNDER PRESSURE TO SLACKEN THE FRG'S TIGHT BUDGETARY REINS: ON THE CONTRARY, APPROVAL OF THE GOVERNMENT'S POLICY OF STABILITY HAD BEEN REAFFIRMED. HE POINTED OUT THAT GROWTH IN THE FEDERAL REPUBLIC WAS ACCELERATING BUT STRESSED THE IMPORTANCE OF FURTHER REDUCING INFLATION IN OTHER COUNTRIES. ON INTEREST RATES SOLTENBERG SINGLED OUT THE UK IN PARTICULAR AS HAVING A 'VITAL INTEREST' IN REDUCING THEIR HIGH LEVEL. HE DID NOT BELIEVE THAT A DOWNWARD CORRECTION OF THE DOLLAR WOULD HAVE ANY DAMAGING EFFECT ON THE GERMAN ECONOMY.

3. PRESS COMMENT ON THE G5 MEETING HAS BEEN GENERALLY FAVOURABLE WITH MOST PAPERS WELCOMING THE DECLARATIONS OF INTENT TO REDUCE THE VALUE OF THE DOLLAR AND TO TAKE THE WIND OUT OF THE SAILS OF PROTECTIONISM. NEVERTHELESS IT REMAINED TO BE SEEN HOW SERIOUSLY THE THREATS OF CONCERTED INTERVENTION WERE TO BE TAKEN. HANDELSBLATT POINTS OUT THAT A SIMILAR VAGUE THREAT OF INTERVENTION WAS ISSUED AFTER THE G5 MEETING IN JANUARY BUT WAS FOLLOWED BY A RENEWED SURGE IN THE VALUE OF THE DOLLAR. ONLY THE IMPORTANT REGIONAL RHEINISCHE POST (CONSERVATIVE) IS SHARPLY CRITICAL OF THE OUTCOME OF THE CONFERENCE WHICH, IN ITS VIEW, REPRESENTS NOTHING NEW AND FAILS TO ATTACK THE REAL ROOT OF THE PROBLEM EG. THE HUGE US BUDGET DEFICIT.

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4. SPOKESMEN FOR THE GERMAN FOREIGN TRADE ASSOCIATION, THE TRADE AND INDUSTRY ASSOCIATION AND THE GERMAN EQUIVALENT OF THE CBI (BDI) ALL EXPRESS THE HOPE THAT THE AGREEMENTS WOULD SERVE TO DISSUADE CONGRESS FROM THE 300 OR MORE APPLICATIONS FOR NEW IMPORT BARRIERS: THESE WOULD BE FAR MORE DAMAGING THAN ANY TEMPORARY DECLINE IN EXPORT REVENUE.

5. WHEN I SAW HIM IN FRANKFURT TODAY, POEHL (PRESIDENT OF THE BUNDESBANK) SAID THAT THE NEW YORK MEETING HAD NOT DONE MUCH TO REMOVE THE CONCERNS ABOUT THE AMERICAN ECONOMY WHICH HE HAD EXPRESSED IN HIS SPEECH IN SAN FRANCISCO LAST WEEK. HE DESCRIBED THE UNITED STATES AS HAVING "PASSED THE POINT OF NO RETURN", IE RUN UP ITS FOREIGN DEBTS TO A POINT WHERE INTEREST PAYMENTS ON THEM MORE THAN CANCELLED OUT THE TRANSFERS FROM AMERICAN COMMERCIAL OPERATIONS ABROAD WHICH HAD HITHERTO COMPENSATED FOR THE INCURABLE DEFICIT IN VISIBLE FOREIGN TRADE. THIS WAS A PROBLEM TO WHICH AT THE MOMENT HE SAW NO SOLUTION.

6. POEHL SAID THAT THE PUBLICITY ATTACHED TO THE NEW YORK MEETING MIGHT HAVE AROUSED EXPECTATIONS HIGHER THAN EVENTS WOULD BEAR OUT. BUT THE AMERICAN COMMITMENT TO INTERVENE IN THE FOREIGN EXCHANGE MARKET REPRESENTED A 180 DEGREE TURN. THIS AND THE COMMITMENT TO CONTINUE TO RESIST PROTECTIONISM WERE OF COURSE IMPORTANT. THE PARTICIPANTS IN NEW YORK HAD REALISED THAT THEY WERE MAINLY THE CHOROUS LINE (STAFFAGE) IN A PIECE OF PRESIDENTIAL THEATRE.

BULLARD

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FCO PLEASE ADVANCE TO: TSY - GRAHAM

FCO - WED, ERD, ECONOMIC ADVISERS

B/ENGLAND - KIRBY

BONN WILL PASS TO FRANKFURT

(ADVANCED AS REQUESTED)

MONETARY

ERD

WED

COPIES TO:

MR GRAHAM, TREASURY

MR KIRBY, BANK OF ENGLAND

-2-  
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REPEATED AS REQUESTED