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FROM UKDEL IMF/IBRD, WASHINGTON

TO PRIORITY FCO

TELNO 299

OF 282330Z SEP 86

AND TO PRIORITY PARIS, BOMN, TOKYO, ROME AND OTTAWA

MEETINGS OF G5 AND G7

ON THE EVE OF THE ANNUAL IMF/IBRD MEETINGS IN WASHINGTON THERE HAVE BEEN TWO CLOSELY RELATED MEETINGS:

FINANCE MINISTER, CENTRAL BANK GOVERNOR AND SENIOR TREASURY OFFICIAL OF EACH OF THE G5 COUNTRIES FOR ABOUT 6 HOURS ON FRIDAY, 26 SEPTEMBER.

FINANCE MINISTER AND SENIOR TREASURY OFFICIAL OF EACH OF THE G7 COUNTRIES LASTING NEARLY 5 HOURS ON SATURDAY, 27 SEPTEMBER.

THE IMF MANAGING DIRECTOR ATTENDED BOTH MEETINGS FOR A COUPLE OF HOURS OR SO.

2. AT THE EARLIER (G5) MEETING IT QUICKLY BECAME CLEAR - AND REMAINED CLEAR IN SPITE OF A GREAT DEAL OF PRESSURE - THAT THE BUNDESBANK WAS NOT PREPARED TO MAKE ANY IMMEDIATE MOVE ON INTEREST RATES OR TO ENTER INTO ANY FIRM COMMITMENT FOR THE NEAR FUTURE. JAPAN RESTED ON THE RECENTLY ANNOUNCED MEASURES AND WAS SIMILARLY NOT OFFERING ANY FURTHER IMMEDIATE ACTION. THE UNITED STATES WAS THEREFORE UNWILLING TO ACCEPT ANY LANGUAGE OF COMMITMENT TO MAINTAIN STABILITY IN EXCHANGE RATES.

3. US TREASURY SECRETARY BAKER SPOKE VERY STRONGLY OF THE DANGERS OF PROTECTIONIST ACTION BY CONGRESS. HE THOUGHT THIS COULD BE RESISTED UNTIL THE END OF THE PRESENT SESSION BUT THAT PRESSURES WOULD COME BACK WITH RENEWED VIRULENCE IN JANUARY. HE RECALLED THAT THE PRESIDENTIAL VETO ON A RECENT MOVE HAD BEEN UPHELD BY ONLY 8 VOTES.

4. ALTHOUGH THERE WAS SOME TENSION FROM TIME TO TIME, PARTICULARLY BETWEEN UNITED STATES AND GERMAN REPRESENTATIVES, THERE WAS ALSO A GENERAL DESIRE TO PRESENT AS CONSTRUCTIVE AN OUTCOME OF THE MEETINGS AS POSSIBLE AND TO TRY TO ACHIEVE A MORE PEACEABLE PUBLIC BEHAVIOUR AS BETWEEN US AND GERMAN FINANCIAL AUTHORITIES.

5. A DRAFT COMMUNIQUE WAS PREPARED, BUT IT WAS UNANIMOUSLY AGREED THAT THERE SHOULD BE NO PUBLIC ANNOUNCEMENT FROM THE G5 MEETING, THAT ALL PRESENT WOULD REFUSE TO ANSWER PRESS QUESTIONS ON THE GROUNDS THAT OTHER COLLEAGUES FROM CANADA AND ITALY MUST BE CONSULTED FIRST, AND THE DRAFT COMMUNIQUE WAS TO BE USED AS A BASIS FOR THE SUBSEQUENT G7 MEETING.

6. THERE HAD BEEN SOME DIFFERENCES OF OPINION IN G5 OVER WHETHER GOVERNORS SHOULD BE INVITED TO THE G7 MEETING, BUT THE EVENTUAL MAJORITY DECISION THAT THEY SHOULD NOT WAS KEPT AND CONFIRMED AT THE BEGINNING OF THE G7 MEETING. (UNITED STATES AND ITALY, WITH SOME SUPPORT FROM CANADA, WOULD HAVE PREFERRED GOVERNORS TO BE PRESENT. FRANCE AND GERMANY WERE ADAMANTLY

/ OPPOSE.

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OPPOSED AND SUPPORTED BY JAPAN AND UK.)

7. THE CONCLUSION OF NO WILLINGNESS TO TAKE IMMEDIATE ACTION WHICH HAD BEEN REACHED IN G5 WAS QUICKLY EVIDENT IN G7. THERE FOLLOWED A DISCUSSION OF VERY THOUGHTFUL AND GOOD QUALITY - RATHER BETTER THAN THE PREVIOUS DAY - AND EVENTUALLY A SLIGHTLY MODIFIED VERSION OF THE DRAFT PREPARED THE PREVIOUS DAY WAS AGREED FOR ISSUE AS A G7 STATEMENT (TEXT IN MIFT).

8. IN THE LATER STAGES OF DISCUSSION, AFTER EMPHASISING THE MUCH MORE BUOYANT PERFORMANCE OF THE GERMAN ECONOMY RECENTLY, STOLTENBERG (FINANCE MINISTER) SAID THAT, IF IT TURNED SLACKER NEXT YEAR, HE WOULD BE READY TO CONSIDER BRINGING FORWARD TAX CUTS - BUT HE COULD NOT ANNOUNCE THAT BEFORE THE GERMAN ELECTIONS.

9. ALL MINISTERS WERE VERY CONSCIOUS OF THE RISKS THAT THE ABSENCE OF DECISIONS FOR IMMEDIATE ACTION MIGHT BE READ BY PRESS AND MARKETS AS A FAILURE AND CONSEQUENTLY CAUSE NERVOUSNESS OR EVEN STRONG MOVEMENTS IN THE MARKETS. THEY AGREED THAT, IN SUPPLEMENTARY COMMENT IN PUBLIC, ALL WOULD ADOPT THE LINE WHICH WAS TEXTUALLY AGREED:

"THE STATEMENT MAKES IT CLEAR THAT THERE IS NO DECISION FOR THE TIME BEING ON IMMEDIATE ACTION ON EITHER INTEREST RATES OR EXCHANGE RATES. WE SHALL OF COURSE - AS THE TEXT INDICATES - FOLLOW THE SITUATION CLOSELY AND STAND READY TO CONSIDER ACTION IF IT SHOULD BECOME APPROPRIATE."

10. NO FURTHER ARRANGEMENTS WERE MADE FOR FUTURE MEETINGS - EITHER OF G5 OR OF G7. IT WAS AGREED HOWEVER THAT CONSIDERATION WOULD BE GIVEN TO THE POSSIBILITY OF A FURTHER G7 MEETING IN THE MARGINS OF THE APRIL INTERIM AND DEVELOPMENT COMMITTEE MEETINGS AND THAT G7 DEPUTIES WOULD TAKE ADVANTAGE OF A SUMMIT PREPARATION MEETING TO CONFER TOGETHER AGAIN. THIS IS WITHOUT PREJUDICE TO POSSIBILITIES OF FUTURE G5 MEETINGS.

11. FCO PLEASE PASS TO MIDDLETON, CASSELL, LAVELLE (HMT), THE DEPUTY GOVERNOR AND GEORGE (BOE), BRAITHWAITE (FCO) AND ARMSTRONG (CABINET OFFICE).

LANKESTER

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ORWBAN 6634

MONETARY
ERD
MR BRAITHWAITE

COPIES TO:

MR CASSELL } H M TREASURY
MR LAVELLE }
DEPUTY GOVERNOR } BANK OF ENGLAND
MR GEORGE }
SIR R ARMSTRONG, CABINET OFFICE

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