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FM BELGRADE 031200Z OCT 79

TO ROUTINE FCO

TELEGRAM NUMBER 179 OF 3/18/79

AND TO ROUTINE UKDEL WASHINGTON

Rennie Ruster
MB *Rust*

FOLLOWING FROM IMF/IBRD DELEGATION

IMF: INTERIM COMMITTEE

1. THE COMMITTEE MET IN BELGRADE ON OCTOBER 1 WITH PANDOLFI (ITALY) IN THE CHAIR. THE CHANCELLOR OF THE EXCHEQUER REPRESENTED THE UK.

2. ON THE FIRST MAIN AGENDA ITEM -- THE WORLD ECONOMIC OUTLOOK -- MANY SPEAKERS GENERALLY ENDORSED THE RATHER GLOOMY VIEW PRESENTED IN THE MANAGING DIRECTOR'S SUBMISSION, AND CONTRASTED IT WITH THE OPTIMISM OF A YEAR AGO. MOST DEVELOPED COUNTRY MEMBERS ACKNOWLEDGED THAT THERE HAD BEEN A MOVE TOWARDS A BETTER DISTRIBUTION OF CURRENT ACCOUNT BALANCE BETWEEN DEVELOPED COUNTRIES, BUT NOTED THE NEW DIFFICULTIES FOR ECONOMIC MANAGEMENT CAUSED BY THE SURGE IN INFLATION WHICH HAD OCCURRED THIS YEAR. MANY STRESSED THAT GROWTH COULD NOT BE RESUMED UNTIL INFLATION HAD BEEN REDUCED. THE CHANCELLOR ADDED THAT CONDITIONS MORE FAVOURABLE TO GROWTH COULD BE CREATED BY PROMOTING ECONOMIC CHANGE WHEREVER POSSIBLE.

3. LDC MEMBERS WERE GLOOMY ABOUT THEIR PROSPECTS, ESPECIALLY IN VIEW OF THE SHARP INCREASE IN THEIR ACCOUNT DEFICITS. ON BEHALF OF THE G24, VINCENT (NIGERIA) CALLED FOR A COMPREHENSIVE PACKAGE OF MEASURES TO LEAD TO A 'NEW ECONOMIC ORDER'. APART FROM FAMILIAR DEMANDS, G24 ARE ASKING FOR AN ADVANCE ON THE EIGHTH IMF QUOTA INCREASE AS SOON AS THE SEVENTH IS IMPLEMENTED, AND FOR AN EXTENSION OF FIRST CREDIT TRANCHE CONDITIONALITY UP TO 50 PER CENT OF QUOTA.

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4. DURING THE AFTERNOON, THE COMMITTEE TURNED TO DISCUSSION OF THE PROPOSALS FOR SUBSTITUTION ACCOUNT. MANY INTERVENTIONS WERE RATHER NEGATIVE, STRESSING THE CONDITIONS THAT WOULD HAVE TO BE MET RATHER THAN ATTEMPTING TO FIND COMMON GROUND. MOST SPEAKERS STRESSED THE NEED FOR THE NEW ASSET TO BE ATTRACTIVE, AND FOR A FAIR SHARING OF THE COSTS AND BENEFITS, BUT SOME EXPRESSED MORE FUNDAMENTAL DOUBTS. THE LATTER GROUP INCLUDED HOWARD (AUSTRALIA), ANDRIESSEN (NETHERLANDS), WARDHANA (INDONESIA), DIZ (ARGENTINA), BAFFI (ITALY), AND CAMDESSUS (FRANCE), WHO ALL SAW DANGERS IF A SUBSTITUTION ACCOUNT WERE ESTABLISHED WITHOUT ADEQUATE CONTROL OVER THE CREATION OF NEW DOLLAR BALANCES. THE CHANCELLOR, MILLER (US), AND LAHNSTEIN (GERMANY) EACH SPOKE BRIEFLY IN SUPPORT OF FURTHER STUDY, LAHNSTEIN QUITE WARMLY, ADDING THAT HE HOPED A SCHEME COULD BE PRODUCED FOR THE SPRING 1980 MEETING OF THE INTERIM COMMITTEE IN HAMBURG. MILLER PROPOSED NO TIMETABLE. THE EXECUTIVE BOARD WILL CONTINUE ITS WORK AND REPORT PROGRESS TO THE NEXT MEETING OF THE COMMITTEE.

5. THE PRESS COMMUNIQUE HAS BEEN SENT BY TELEGRAM. DURING THE DISCUSSION OF PARAGRAPH VII OF THE COMMUNIQUE BOUEY (CANADA) RAISED THE QUESTION WHETHER THE EXECUTIVE BOARD'S REPORT ON SUBSTITUTION SHOULD BE PUBLISHED. DE LAROSIERE REPLIED NEUTRALLY BUT POINTED OUT THAT THERE WERE PRECEDENTS FOR PUBLICATION AND THAT THE REPORT HAD ALREADY BEEN LEAKED TO THE PRESS. THIS QUESTION WILL NO DOUBT BE PURSUED WHEN THE BOARD REASSEMBLES IN WASHINGTON; IT IS PROPOSED THAT RYRIE SHOULD SUPPORT PUBLICATION.

6. FULLER REPORTS OF THE TWO MAIN ITEMS FOLLOW BY SAVINGRAM.

FARQUHARSON

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