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EUROPEAN COUNCIL, VENICE
12/13 JUNE 1980
INTERNATIONAL MONETARY PROBLEMS
Brief by HM Treasury

OBJECTIVE

No special UK points. If there is discussion to seek agreement that existing institutions must be built upon.

POINTS TO MAKE

1. Fears about ability of commercial banks to play central role in recycling over the next 2 years are exaggerated, although the situation may tighten thereafter. But efforts to improve prudential supervision must continue.
2. But international financial institutions, mainly IMF, must play an increasing part. IMF should increase its lending but should continue to apply appropriate economic policy conditions to borrowers in order to ensure adjustment.
3. No scope for increasing IBRD (World Bank) lending above present plans but some additional emphasis on IBRD programme lending through the new structural adjustment facility may be possible.
4. No need for new financial institutions (eg medium-term lending organisation suggested by Brandt). Better to rely on tried and trusted existing institutions, adapted as necessary.

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5. Little if any scope for significant Community initiative on recycling. Community institutions (eg EIB) might help recycling to Community members but could only play very limited role in wider recycling.

6. One way for Community countries to help recycling and meet OPEC wishes is to allow their own currencies to be held more widely in national reserves.

BACKGROUND (all material except paragraph 7 may be freely used).

References: (i) There may be a report from the Eco/Fin Council on 9 June;
(ii) The Commission paper on the North/South dialogue refers to this subject. See brief 9.

7. It is not clear how the Presidency intend to handle this item, but their intention is probably to allow those not attending the Summit to express their views.

8. The OPEC surplus is likely to reach \$135 billion in 1980. OECD deficit estimated at \$101 billion; LDC deficit \$55 billion (1981 estimates are \$108 billion, \$84 billion, \$54 billion respectively).

9. Recycling was discussed at a low-key meeting of the IMF Interim Committee in Hamburg on 26 April. (Next IMF Ministerial meeting is in Washington, end-September). Ministers agreed that the IMF does not have an immediate liquidity problem but needs to consider how to meet the likely increase in demand for balance of payments help.

10. The IMF Executive Board are starting a review of policies. We favour giving individual members access to more IMF funds as a proportion of their quota (ie allowing greater multiples of quota to be drawn). The Fund's main resources should be increased by 50 per cent when the 7th Quota Review is ratified.

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UK intend to ratify (via Order subject to Affirmative Resolution) shortly. Main problem is US ratification - making slow progress through Congress. UK view is that IMF should borrow from members (particularly OPEC) if it runs short (market borrowing might also be considered but could raise problems). But LDC pressure for the sale of the remaining IMF gold and for the weakening of IMF conditionality should be resisted.

11. The World Bank is introducing a new facility called structural adjustment lending (SAL) to give medium term balance of payment support to countries prepared to undertake suitable programmes of action. (Most IBRD lending is on projects - funds are disbursed relatively slowly. Up to now IBRD programme lending has usually followed crises - wars, hurricanes etc, but SAL is intended to make a more constructive contribution to recycling.) UK view is that SAL must not be allowed to undermine IMF discipline (eg with weaker conditionality) and must not be additional to agreed World Bank commitment levels.

12. [May need amendment after 9 June Eco/Fin Council. *Now behind* The EC Monetary Committee (especially Germany and the UK) found very little scope for direct Community action on recycling to developing countries (as opposed to concerted action in the IMF and ECU-denominated borrowing for use inside the Community). But the French appeared to see political advantage in some kind of direct Community action, though they seem unclear about what form this should take.

HM TREASURY

3 June 1980