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 FROM UKDEL IMF/IBRD WASHINGTON
 TO PRIORITY FCO
 TELNO 195
 OF 052300Z NOVEMBER 85

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IMF: PROBLEM COUNTRIES

1 ON 4 NOVEMBER, THE MANAGING DIRECTOR HELD A MEETING TO BRIEF EXECUTIVE DIRECTORS ON THE STATE OF PLAY IN SELECTED PROBLEM COUNTRIES.

EGYPT

2 SHAALAN (DIRECTOR, MIDDLE EASTERN DEPARTMENT) REPORTED ON THE DETERIORATING ECONOMIC SITUATION, PARTICULARLY THE BALANCE OF PAYMENTS. IN RECENT WEEKS THE FREE MARKET EXCHANGE RATE HAS DROPPED SHARPLY. HE SAID THAT THE AUTHORITIES WERE NOW SHOWING AN INCREASED AWARENESS OF THE MAGNITUDE OF THE PROBLEM AND A MISSION TO DISCUSS A POSSIBLE PROGRAMME WOULD LEAVE FOR CAIRO THIS WEEK (THE MISSION PLANNED FOR SEPTEMBER WAS POSTPONED BECAUSE OF GOVERNMENT CHANGES).

SUDAN

3 THE LATEST MISSION HAS RETURNED HAVING MADE SOME PROGRESS BUT STILL WITHOUT FINAL AGREEMENT ON A PROGRAMME. I WILL REPORT FURTHER WHEN WE HAVE HAD A CHANCE TO DEBRIEF THE

MISSION.

ARGENTINA

4 THE LATEST REVIEW - DUE FOR COMPLETION BY END-OCTOBER HAS BEEN DELAYED AND WILL NOT NOW REACH THE BOARD UNTIL, AT THE EARLIEST, EARLY DECEMBER. AT THE TIME OF SEPTEMBER'S MISSION THE AUTHORITIES HAD NOT FINALISED NEXT YEAR'S BUDGET AND CRITERIA FOR THE REMAINDER OF THE PROGRAMME COULD NOT THEREFORE BE DETERMINED. THE AUTHORITIES HAVE NOW ADVANCED THEIR BUDGET PREPARATIONS AND A MISSION IS CURRENTLY IN BUENOS AIRES. STAFF SEEM REASONABLY HOPEFUL THAT REVIEW WILL BE SATISFACTORILY COMPLETED.

BOLIVIA

5 PRELIMINARY NEGOTIATIONS ON A POSSIBLE ONE YEAR SBA WILL BEGIN THIS MONTH. MIFT 196 WILL GIVE FURTHER DETAILS.

BRAZIL

6 DISCUSSION OF A POSSIBLE 1986 SBA WILL TAKE PLACE WITH THE AUTHORITIES LATER THIS MONTH ONCE DETAILS OF THEIR ECONOMIC PROGRAMME FOR 1986 ARE AVAILABLE.

COLOMBIA

7 AN OCTOBER MISSION TO MONITOR PROGRESS UNDER THE AUTHORITIES' ECONOMIC PROGRAMME HAS BEEN POSTPONED AFTER AN INTERNAL BRIEFING DOCUMENT WAS LEAKED (THERE WAS A PREVIOUS LEAK IN MARCH). THE MD SAID THAT NO EFFORT WAS BEING SPARED TO FIND THE 'TRAITOR'. HOWEVER, THE MD STRESSED THAT DESPITE THIS DEVELOPMENT HE REMAINED ON GOOD TERMS WITH THE AUTHORITIES. HE HAD WRITTEN, DEPLORING THE LEAK AND THEY HAD DONE ALL THEY COULD

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TO DEFUSE THE SITUATION. THE MISSION WILL STILL GO AHEAD, PROBABLY BEFORE END-1985.

CHILE

8 PROGRAMME ESSENTIALLY ON TRACK. THE AUTHORITIES HAVE REQUESTED A WAIVER OF THE END-SEPTEMBER INTERNATIONAL RESERVES TARGET AND THEIR NON-COMPLIANCE WITH THE OBLIGATION TO REDUCE EXCHANGE RESTRICTIONS. THIS WAS, WE WERE TOLD, A PURELY TECHNICAL MATTER, ARISING FROM THE LATE DISBURSEMENT OF COMMERCIAL BANK MONEY. BUT YOUR TELNO 206 SUGGESTS THAT THE LATTER MAY BE MORE THAN A TECHNICAL MATTER: WE ARE FOLLOWING UP AS REQUESTED.

GUYANA

9 FUND STAFF MET WITH AUTHORITIES IN SEOUL, BUT STILL NO PROSPECT OF ARREARS BEING CLEARED.

JAMAICA

10 THE PROGRAMME IS OFF TRACK AND JAMAICA HAS NOW FALLEN INTO ARREARS WITH THE FUND. MIFT 197 PROVIDES DETAILS.

MEXICO

11 WORK IS WELL ADVANCED ON THE EMERGENCY ASSISTANCE LOAN BUT THE MD IS STILL AWAITING A FORMAL REQUEST. AS FOR A 1986 PROGRAMME, TALKS ARE UNLIKELY TO BEGIN UNTIL THE BUDGET HAS BEEN SUBMITTED TO CONGRESS (ON 15 NOVEMBER).

PERU

12 THE BOARD RECEIVED FORMAL NOTIFICATION ON 15 OCTOBER OF ARREARS TO THE FUND OF SDR27 MILLION. THESE HAVE NOW INCREASED TO ABOUT SDR38 MILLION. MEANWHILE, THE DEADLINE FOR THE NEXT ARTICLE IV CONSULTATION IS APPROACHING (21 MARCH) BUT THE AUTHORITIES HAVE SAID THEY DON'T WANT A MISSION THIS YEAR. THE GAMBIA

13 STAFF PLAN TO SEND A MISSION END-NOVEMBER/EARLY DECEMBER, ON THEIR CALCULATION, THEY ARE STILL SDR 11 MILLION SHORT OF FILLING THE ESTIMATED SDR 51 MILLION FINANCING GAP FOR 1986, BUT THIS IS BEFORE TAKING INTO ACCOUNT ANYTHING FROM THE ADR. IN THEIR VIEW, PROSPECTS FOR COMPRESSING THE GAP BY FURTHER FISCAL MEASURES ARE SLIM. GAMBIA'S ARREARS WILL BE DISCUSSED IN THE FUND BOARD ON 8 NOVEMBER.

LIBERIA

14 AROUND ONE-THIRD OF OUTSTANDING ARREARS WERE CLEARED AT END-SEPTEMBER "WITH THE HELP OF A FRIENDLY COUNTRY" BUT THEY HAVE SINCE INCREASED TO SDR33.2 MILLION IE EXCEEDING PREVIOUS LEVELS. THE EXECUTIVE BOARD WILL REVIEW THE SITUATION AGAIN ON 25 NOVEMBER. FURTHER CONSULTATION WITH THE AUTHORITIES IS PLANNED BEFORE EARLY NEXT YEAR, CURRENT ADJUSTMENT EFFORTS ARE CLEARLY INADEQUATE.

MOZAMBIQUE

15 THE PROSPECTS FOR 1986 LOOK BLEAK IN THE ABSENCE OF CORRECTIVE MEASURES: DISCUSSIONS WITH THE COMMERCIAL BANKS ON RESCHEDULING HAVE MADE LITTLE PROGRESS AND MOST TRADE CREDIT HAS BEEN SUSPENDED. THE FUND HAS PROVIDED TECHNICAL ASSISTANCE TO

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CREATE A BASIS FOR MONITORING A FIRST CREDIT TRANCHE PROGRAMME.
A NEGOTIATING MISSION WILL VISIT MAPUTO BETWEEN 11-23 NOVEMBER.
NIGERIA

16 ALTHOUGH PRESIDENTIAL COMMITTEE ON THE IMF IS STILL TO REPORT, CERTAIN TECHNICAL WORK IS UNDERWAY IN THE MINISTRY OF FINANCE ON A POSSIBLE FUND PROGRAMME. A NIGERIAN DELEGATION INCLUDING THE CENTRAL BANK GOVERNOR AND POSSIBLY THE MINISTER OF FINANCE IS EXPECTED IN WASHINGTON LATE NOVEMBER/EARLY DECEMBER. OUATTARA (DIRECTOR, AFRICAN DEPARTMENT) HAD LITTLE FEEL FOR THE PROSPECTS OF AGREEING A PROGRAMME.

SIERRA LEONE

17 AS REPORTED IN OUR SAVING TELNO 416 OF 7 OCTOBER, THE NEW AUTHORITIES ARE KEEN TO NEGOTIATE A FUND PROGRAMME AND HAVE THEREFORE INTENSIFIED THEIR EFFORT TO CLEAR THEIR ARREARS. AS EXPECTED, THEY MADE A PAYMENT ON 3 OCTOBER BUT THIS HAS NOT PREVENT ARREARS INCREASING FURTHER: THEY NOW STAND AT SDR10 MILLION.

SOMALIA

18 FUND PROGRAMME STILL STALLED AND ARREARS HAVE INCREASED TO SDR9.8 MILLION. HOWEVER, THE AUTHORITIES HAVE EXPRESSED A DESIRE TO REACTIVATE THE PROGRAMME. A MISSION TO COMPLETE THE PROGRAMME REVIEW WILL DEPART IN MID-NOVEMBER PROVIDED THAT PROGRESS IS MADE IN PRELIMINARY DISCUSSIONS, PRIOR TO THE CONSULTATIVE GROUP MEETING. THE AUTHORITIES ARE SEEKING BRIDGING FINANCE TO PAY OFF THEIR ARREARS.

TANZANIA

19 THE ECONOMIC SITUATION HAS DETERIORATED AND ARREARS HAVE INCREASED TO SDR19.5 MILLION. AN ARTICLE IV MISSION DEPARTS 6 DECEMBER.

ZAMBIA

20 LITTLE TO ADD TO OUR REPORTS OF LAST WEEK. AFTER THE MEETING I SPOKE TO OUATTARA AND ACQUAH (DIRECTOR AND DIVISION CHIEF, AFRICAN DEPARTMENT). IN LAST FRIDAY'S AUCTION THE EXCHANGE RATE ROSE TO KWACHA 6.64 TO THE DOLLAR: DOLLARS 7.5 MILLION WERE SOLD. ON THE MODALITIES OF AGREEING A PROGRAMME, OUATTARA STRESSED THAT DETAILS OF HOW THE FINANCING GAP WAS TO BE FILLED WOULD HAVE TO BE TIED UP IN DECEMBER. THE ZAMBIANS WOULD NEED PUSHING BOTH ON POLICY MEASURES AND ON ORGANISING THE NECESSARY BRIDGING FINANCE. I SAID THAT WE WERE UNWILLING TO TAKE THE LEAD IN BRINGING TOGETHER POTENTIAL DONORS/CREDITORS AS WE HAD IN THE CASE OF THE GAMBIA. OUATTARA SAID THE WORLD BANK WOULD TAKE THE LEAD WITH DONORS, THE FUND WOULD ASSIST THE ZAMBIANS IN TALKING TO THE BANKS ABOUT BRIDGING FINANCE. (HE ALSO SAID THAT, SOME MONTHS AGO, CITIBANK HAD TOLD HIM THAT, GIVEN A STRONG AND CREDIBLE PROGRAMME, THEY MIGHT BE WILLING TO BRIDGE IN EXCESS OF THE FIRST DRAWING OF A FUND PROGRAMME - HE DID NOT KNOW THEIR POSITION NOW.)

PHILIPPINES

21 SEE KING'S TELELETTER OF 1 NOVEMBER. WE WILL DEBRIEF THIS WEEK'S MISSION ON ITS RETURN.

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22 THE AUTHORITIES ARE STILL NON-COMMITTAL ON A TIMETABLE FOR CLEARING THEIR ARREARS. ARTICLE IV DISCUSSIONS ARE SCHEDULED FOR THE SPRING.

TURKEY

23 THE AUTHORITIES HAVE DECIDED THEY DO NOT NEED ANOTHER SBA, HOWEVER THEY HAVE ASKED TO KEEP IN CLOSE CONTACT WITH THE FUND.

GREECE

24 FUND STAFF WILL SHORTLY CIRCULATE AN ASSESSMENT OF THE LATEST MEASURES.

POLAND

25 A DRAFT MEMBERSHIP PAPER, INCLUDING A QUOTA PROPOSAL, IS IN PREPARATION. STAFF UNWILLING TO SAY WHEN IT WOULD BE CIRCULATED.

26 FCO PLEASE PASS TO FITCHEW, MOUNTFIELD AND SHERIDAN (HMT), WARE (BOE), TAIT (ERD) AND E BARNES (ODA).

LANKESTER

MONETARY

ERD
SAM D
CAF D
NAD
SED
WIAD
EED
SEAD
WAD

COPIES TO:

HMT / FITCHEW, MOUNTFIELD,
SHERIDAN
BOE / WARE
ODA / E. BARNES
ERD / TAIT.

THIS TELEGRAM
WAS NOT
ADVANCED

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