

ADVANCE COPY
mf

CONFIDENTIAL
FM BUDAPEST
TO IMMEDIATE FCO
TELNO 143
OF 282300Z FEBRUARY 90
INFO ROUTINE EAST EUROPEAN POSTS, MOSCOW, BONN, PARIS, UKDEL NATO
INFO ROUTINE UKDELIMF/IBRD WASHINGTON, WASHINGTON

FROM PRIVATE SECRETARY

SECRETARY OF STATE'S VISIT TO HUNGARY: MEETING WITH PRIME MINISTER NEMETH

SUMMARY

1. NEMETH SPEAKS AS A MAN WHOSE DAYS ARE NUMBERED. HE CLEARLY FEELS THAT, WHILE THE GOVERNMENT HAVE BEHAVED RESPONSIBLY, THE OPPOSITION HAVE ALLOWED DEMOCRACY TO GO TO THEIR HEADS. HE IS PARTICULARLY WORRIED AT WHETHER THE IMF AGREEMENT WILL STICK IF THE OPPOSITION PARTIES TAKE POWER. SENDS A WRITTEN MESSAGE TO THE PRIME MINISTER ABOUT BANK OF ENGLAND DEBT PROVISIONING REQUIREMENTS.

DETAIL

2. THE SECRETARY OF STATE SPENT THE BEST PART OF AN HOUR WITH NEMETH TODAY. NEMETH GAVE AN APOLOGIA FOR HIS GOVERNMENT'S POLICIES. THEY HAD GOT THROUGH A TOUGH BUDGET IN AGREEMENT WITH THE IMF. THEY HAD PUSHED THROUGH REFORM PEACEFULLY AND NOT IN RESPONSE TO PRESSURE FROM THE STREETS. IT WAS HUNGARY WHICH HAD SUCCESSFULLY TESTED THE MARGINS OF SOVIET TOLERANCE AND PAVED THE WAY FOR OTHER COUNTRIES. REFORM HAD COME FROM WITHIN THE PARTY AND WOULD BE COMPLETE ONCE THE ELECTIONS TOOK PLACE.

3. NEMETH PAINTED WHAT I UNDERSTAND IS A CHARACTERISTICALLY HUNGARIAN IE GLOOMY, PICTURE. THROUGHOUT HISTORY, HUNGARY'S SUCCESSFUL REFORMS HAD BEEN CRUSHED BY EXTERNAL FORCES. HUNGARY'S FRIENDS ALWAYS LEFT HER IN THE LURCH OR CHEATED HER, 1956 BEING THE MOST RECENT EXAMPLE. ALL THESE EXPERIENCES HAD WORKED THEIR WAY DEEP INTO THE SOUL OF THE HUNGARIAN PEOPLE. HE HOPED HISTORY WOULD NOT REPEAT ITSELF.

4. NEMETH SAID THAT OF THE 50 POLITICAL PARTIES NOW JOCKEYING FOR POSITION, FOUR WOULD COME OUT CLEARLY FROM THE ELECTIONS: THE HUNGARIAN DEMOCRATIC FORUM, THE SMALLHOLDERS' PARTY, THE ALLIANCE

OF FREE DEMOCRATS AND THE HUNGARIAN SOCIALIST PARTY (HIS OWN PARTY). A NUMBER OF OTHERS WOULD GET PAST THE 4% THRESHOLD BUT WOULD NOT BE SIGNIFICANT. HE SAW TWO MAIN DANGERS. THE FIRST WAS THAT NO PARTY WOULD BE ABLE TO COMMAND SUFFICIENT SUPPORT TO LAST FOR LONG, SO THERE WOULD BE CONSTANT CHANGES AS IN ITALY. THAT WAS ALRIGHT FOR ITALY WHERE THE ECONOMY WAS STRONG BUT THE ECONOMY WAS COMPARATIVELY WEAK. THE SECOND RISK WAS THAT THERE WOULD BE A LOW TURN-OUT (THE LATEST UNPUBLISHED POLLS SUGGESTED 41%). IF THERE WERE THEN A COALITION GOVERNMENT BUT WITH ONLY 51% OF THE VOTE, MAYBE LEAVING THE LARGEST PARTY IN OPPOSITION, THEN IT COULD BE VERY DIFFICULT FOR THE GOVERNMENT TO GOVERN AND OPPOSITION COULD TAKE TO THE STREETS. WHAT HUNGARY NEEDED WAS A MULTI-PARTY, NON-EXTREME GOVERNMENT.

5. NEMETH DEPLORED THE CONDUCT OF THE ELECTION CAMPAIGN BY THE OPPOSITION FORCES. THE HUNGARIAN DEMOCRATIC FORUM POSTER, WHICH SHOWED THE BACK OF A FAT, RUSSIAN OFFICER WITH THE CAPTION 'COMRADES, IT'S OVER', IMPLIED THAT THE HDF WOULD BE RESPONSIBLE FOR GETTING THE RUSSIANS OUT OF HUNGARY. BUT AN AGREEMENT ON SOVIET TROOP WITHDRAWAL WOULD BE SIGNED ON 15 MARCH AND THE NEGOTIATIONS HAD STARTED A LONG TIME BEFORE. THE GOVERNMENT HAD ASKED THE PARTIES NOT TO MAKE SOVIET WITHDRAWAL A CAMPAIGN ISSUE. HOW WOULD THE NEW GOVERNMENT FACE GORBACHEV AFTER SLOGANS LIKE THAT? SIMILARLY, THE FREE DEMOCRATS WERE SUGGESTING THAT THEY COULD RENEGOTIATE THE TERMS OF THE IMF DEAL, WHICH WAS COMPLETELY IRRESPONSIBLE. NEMETH HAD DISCUSSED THE DEAL WITH ALL THE PARTIES, WHO HAD AGREED THAT THEY WOULD NOT USE IT FOR ELECTORAL PURPOSES. THERE WAS NO HONOUR AMONG THIEVES. HE HOPED THE OPPOSITION WOULD BE MORE RESPONSIBLE AFTER THE ELECTION AND, IF THEY WERE IN POWER, WOULD STAND BY THE IMF AGREEMENT.

6. NEMETH SAID HE UNDERSTOOD THE CAUTION OF BRITISH BANKERS ABOUT INVESTING IN HUNGARY, BUT THEIR CAUTION HAD AN UNFAVOURABLE IMPACT ON OTHERS. HE SAID HE HAD WRITTEN

TO MRS THATCHER AND HANDED OVER THE TEXT. IT IS CLEAR FROM THIS (MIFT TO FCO ONLY) THAT HIS REAL COMPLAINT IS ABOUT BANK OF ENGLAND DEBT PROVISIONING REQUIREMENTS.

7. THE SECRETARY OF STATE NEMETH NOT TO GET TOO WORKED UP OVER POLITICAL SLOGANS. 'YANKS GO HOME' HAD BEEN ON PRACTICALLY EVERY HOARDING THROUGHOUT BRITAIN FOR MANY YEARS. HE ACCEPTED THAT THE ECONOMIC SIDE WAS MORE SERIOUS. WAS THERE ANY IMPARTIAL BODY WHICH COULD IMPRESS ON ALL THE PARTIES THE IMPORTANCE OF GOING

DOWN THE IMF PATH? WE WOULD DO WHAT WE COULD FROM THE OUTSIDE BUT THE ADVICE REALLY NEEDED TO COME FROM WITHIN HUNGARY. NEMETH SAID HE HAD TAKEN UP THESE MATTERS WITH THE LEADERS OF THE FOUR PARTIES. WHEN THE DEPUTY PRESIDENT OF THE IBRD HAD VISITED HUNGARY A FEW WEEKS PREVIOUSLY, HE HAD BEEN IN DESPAIR AT THE SUPERFICIALITY OF THE OPPOSITION'S IDEAS. IF HE AND THE FOREIGN MINISTER (HORN) FOUND THEMSELVES IN OPPOSITION AFTER THE ELECTIONS (AND HE DID NOT DOUBT THAT, AS INDIVIDUALS, THEY WOULD BE RE-ELECTED) THEY WOULD TRY TO KEEP THE OPPOSITION PARTIES ON THE STRAIGHT AND NARROW BY REMINDING THEM OF THEIR EARLIER APPROVAL OF THE IMF DEAL. THE IMF/IBRD WOULD HAVE TO CONTINUE TO BE VERY TOUGH.

SOVIET UNION

8. IN REPLY TO A QUESTION FROM THE SECRETARY OF STATE, NEMETH SAID THAT THE SITUATION IN THE SOVIET UNION WAS TENSE AND NEARING AND EXPLOSION. UP TILL NOW, HOWEVER, GORBACHEV HAD NOT HAD GENUINE POWER. NOW HE WOULD HAVE IT. IF HE COULD SOLVE THE NATIONALITY ISSUES, REVITALISE AGRICULTURE AND CUT MILITARY EXPENDITURE THEN AFTER A TOUGH 3-5 YEARS HE COULD COME OUT ON TOP. NEMETH DID NOT SUGGEST HOW THIS COULD BE DON BUT DID SAY THAT THERE WERE HUGE INTEREST FROUPS WORKING AGAINST GORBACHEV, NOT ONLY THOSE REPRESENTING THE INERTIA OF THE BUREAUCRACY BUT THE INTERESTS OF THE DIFFERENT REPUBLICS AS WELL. THE SOVIETS NEEDED A SUCCESSFUL FEDERATION. NOTHING MUST BE DONE IN EAST OR CENTRAL EUROPE TO EXACERBATE GORBACHEV'S DIFFICULTIES. THEY DID NOT WANT TO HAVE TO WAIT ANOTHER 70 YEARS FOR A REFORMER. APART FROM ANYTHING ELSE, THE IMPACT OF THE SOVIET ECONOMY, AND THE CMEA, WAS VERY NEGATIVE AS FAR AS HUNGARY WAS CONCERNED. THERE 1 BILLION DOLLAR TRADE SURPLUS WITH THE SOVIET UNION, WHICH THEY COULD ONLY SPEND ON GOODS T THAT NOBODY WANTED, HAD FORCED THEM TO RESTRAIN EXPORTS. WITH WESTERN HELP, HUNGARY COULD COME THROUGH. HE HAD TALKED TO THE BANK OF INTERNATIONAL SETTLEMENTS. THEY WOULD BE WILLING TO MAKE ARRANGEMENTS FOR AN INTERNATIONAL CONSORTIUM. HUNGARY NEEDED A BRIDGE OF ABOUT 1.5 BILLION DOLLARS.

COMMENT

9. THE SECRETARY OF STATE THINKS THAT NEMETH'S CONCERN OVER THE FUTURE OF THE IMF DEAL IS WELL FOUNDED. HE UNDERSTANDS THAT THE IMF ARE REFUSING TO REACH A CONCLUSION WITH THE PRESENT HUNGARIAN GOVERNMENT AND WANT TO AWAIT THE OUTCOME OF THE ELECTIONS. IT COULD, HOWEVER, BE DAMAGING IF THERE WERE DELAY. IT WOULD BE MUCH EASIER FOR AN INCOMING GOVERNMENT TO ACCEPT A FAIT ACCOMPLI THAN TO HAVE TO NEGOTIATE WITH THE IMF, WEIGHED DOWN WITH HALF-

CONFIDENTIAL

73204
MDADAN 7827

PROMISES FROM THE CAMPAIGN, TO TRY TO NEGOTIATE A BETTER DEAL.
THE SECRETARY OF STATE WOULD BE GRATEFUL FOR ADVICE ON THIS.

BIRCH

FCO PLEASE ADVANCE TO PS/NO 10
YYYY

DISTRIBUTION 10

ADVANCE 789

HD/EED
HD/JAU/EED
HD/CSCE UNIT
HD/NEWS D
PS/MR WALDEGRAVE

PS
PS/NO 10
PS/PUS
~~RESIDENT CLERK~~
MISS SPENCER

NNNN