

INTERNATIONAL MONETARY FUND

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Press Communiqué of the Interim Committee
of the Board of Governors of the
International Monetary Fund

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its twenty-fourth meeting in Washington, D.C., on April 17 to 19, 1985, under the chairmanship of Mr. H. Onno Ruding, Minister of Finance of the Netherlands. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The meeting was also attended by observers from a number of international and regional organizations and from Switzerland.
2. As agreed last September, the Committee focused its attention at this meeting primarily on certain issues relating to the adjustment efforts and balance of payments prospects of member countries, which it discussed in a medium-term framework. These issues included external indebtedness, international capital flows, trade policies, and the role of Fund surveillance in dealing with them. The Committee had a constructive exchange of views aimed at developing agreement on possible measures to strengthen international arrangements and understandings in all these areas.
3. The members of the Committee welcomed the continuing recovery in the world economy, and the fact that inflation has generally continued to decline. Non-oil developing countries as a whole have significantly improved their exports and their current account position and have, on average, resumed per capita income growth. While noting that the recovery, though geographically uneven so far, was expected to be sustained, the Committee drew attention to the following facts: the momentum of growth in many developing countries has not yet achieved an acceptable pace; their commodity prices and terms of trade have not recovered; fiscal and current account imbalances in some industrial countries have continued and intensified; unemployment has remained very high in many countries; and exchange rate volatility has persisted. The Committee noted the continued plight of Sub-Saharan Africa which remains a major concern of the international community.
4. The Committee noted that world economic prospects in the medium term would be affected by developments in the fields of trade, capital flows, interest rates, and exchange rates. In this connection, it stressed

the special responsibility of the major industrial countries to pursue policies that would result in sustainable non-inflationary growth and would permit developing countries growing access to markets. More particularly, the Committee drew attention to the need for action in the following areas:

(a) It is urgent that the trend toward protectionism be reversed, and that freer world trade be promoted.

(b) The magnitude of fiscal deficits in a number of countries continued to be a cause for concern. In these countries measures were needed to reduce public sector reliance on domestic and foreign savings, thereby easing pressures on financial resources, which could lower interest rates and foster growth. In this respect, the Committee welcomed the recent announcement by the U.S. Government of its initiative to reduce substantially its fiscal deficit.

(c) Measures are needed to improve the functioning of labor, financial, and goods markets by removing structural rigidities.

(d) It is equally important to seek greater exchange rate stability.

By creating a basis for durable growth of production and international trade, these actions would enhance the export growth of developing countries and facilitate the implementation of the necessary adjustment policies by the debtor countries.

5. The Committee agreed that many developing countries had made progress in dealing with their debt-servicing difficulties, a development that has undoubtedly been facilitated by the strength of the economic recovery, particularly by the upturn in the U.S. economy. The Committee noted, however, that the external debt problems of a number of countries remain serious and have been exacerbated by rates of interest, which, while they have declined, remain very high. A satisfactory resolution of these difficulties would require sustained, determined, and coordinated efforts by both creditor and debtor countries, and will continue to take into account the particular circumstances of each case. Several low-income developing countries continue to face severe debt-servicing problems even though much of their debt is to official creditors.

6. In debtor countries, adjustment is essential and, indeed, unavoidable. In the view of the Committee, appropriate policies to that effect, including measures to encourage domestic savings and investment and to promote realistic exchange rates and prices, are necessary for the restoration of growth and creditworthiness, and to encourage spontaneous lending by commercial banks and flows from official sources. They will also create a favorable climate for the return of flight capital and, together with greater receptivity to inward direct investment, for an increase in nondebt-creating flows and transfers of technology.

7. These adjustment efforts should be supported by the creditors through adequate flows of new lending on realistic terms, and by a readiness to restructure past maturities of loans extended by private and official creditors. The Committee welcomed recent examples of multiyear rescheduling arrangements for commercial debts of some countries and the contribution they should make to improved creditworthiness. As regards official debt reschedulings within the framework of the Paris Club, the Committee recognizes that these have been handled with flexibility. It welcomes the intention of the Paris Club to consider, in particular cases, multiyear reschedulings in close cooperation with the Fund, where debtor countries have a proven record and continuing prospects of sound adjustment. For those countries whose external debt has been rescheduled, whose prospects of economic progress are good, and which are undertaking satisfactory adjustment policies, the industrial countries should consider resuming export credit cover, subject to standard national policies.

8. The Committee underscored the importance it attached to the role of the Fund in support of adjustment programs and as a financial catalyst. The Committee also stressed the importance of close collaboration between the Fund and the World Bank.

In view of the many uncertainties remaining on the financial horizon, the Committee stressed the need for a strong International Monetary Fund that can appropriately assist members that are prepared to take needed adjustment measures in the event that severe payments problems arise.

9. The Committee stressed the importance of effective Fund surveillance as a means of promoting sound underlying economic policies and convergence of performance among member countries. It urged that steps be taken to strengthen surveillance over the policies of all Fund members. It also urged that consideration be given, within the context of the policy of uniform treatment of members, to means of increasing the effectiveness of surveillance over the policies of those industrial and developing countries which have a significant impact on the functioning of the world economy.

10. The members of the Committee had an exchange of views on the question of an SDR allocation in the current basic period. While the SDR constitutes an integral part of the structure of the Fund, it was not possible to reach the degree of support required for such an allocation. The Committee agreed to consider the matter again at its next meeting in the light of developments.

11. The Committee requested that the Executive Board, in the light of its 1980 decision, consider the use of the resources that will be available following repayment of loans that have been made by the Trust Fund, to help forward the adjustment process by providing assistance to low-income developing countries, and that the Managing Director report to the Committee on this matter by the time of the next meeting of the Committee in Seoul.

12. The Committee noted that improvements of the international monetary system were currently under study. It was agreed that the Committee would review these issues at its next meeting in Seoul.

13. The Committee agreed to have its next meeting in Seoul on October 6, 1985.

INTERIM COMMITTEE ATTENDANCE

April 17-19, 1985

Chairman

H. O. Ruding, Minister of Finance of Netherlands

Managing Director

J. de Larosière

Members or Alternates

Mohammad ABAL-KHAIL, Minister of Finance and National Economy,
Saudi Arabia

Hikmat M. AL-AZZAWI, Governor, Central Bank of Iraq

James A. BAKER, III, Secretary of the Treasury, United States

Pierre BEREGOVY, Minister of Economy, Finance and Budget,
France

Rachid BOURAOUI, Governor, Banque Centrale d'Algérie

Mariano RUBIO, Governor, Banco de España

Alternate for Miguel Boyer, Minister of Economy and
Finance, Spain)

Abdulai O. CONTEH, Minister of Finance, Sierra Leone

Abdul DAIM bin Haji Zainuddin, Minister of Finance, Malaysia

Giovanni GORIA, Minister of the Treasury, Italy

Frans GROOTJANS, Vice Prime Minister, Minister of Finance, and
Minister of Middle Classes, Belgium

Christopher HURFORD, Minister for Immigration and Ethnic Affairs
and Minister Assisting the Treasurer, Australia

(Alternate for Paul J. Keating, Treasurer, Australia)

Nigel LAWSON, Chancellor of the Exchequer, United Kingdom

LIU Hongru, Vice Chairman of the Council and Vice Governor,
People's Bank of China

MAWAKANI Samba, Alternate Governor of the Fund for Zaïre

Hermund SKANLAND, Governor, Norges Bank

(Alternate for Rolf Presthus, Minister of Finance, Norway)

W. F. DUISENBERG, President, De Nederlandsche Bank N.V.

(Alternate for H. O. Ruding, Minister of Finance, Netherlands)

Antonio Carlos Braga LEMGRUBER, President, Banco Central do Brasil

(Alternate for Joao Sayad, Minister of Planning, Brazil)

Vishwanath Pratap SINGH, Minister of Finance, India

Juan Vital SOURROUILLE, Minister of Economy, Argentina

Gerhard STOLTENBERG, Federal Minister of Finance, Germany

Satoshi SUMITA, Governor, The Bank of Japan

(Alternate for Noboru Takeshita, Minister of Finance, Japan)

Michael H. WILSON, Minister of Finance, Canada

Observers

A. W. Clausen, President, World Bank

Antonio Costa, Special Counsellor to the Secretary General, OECD

- 2 -

M. G. Dealtry, Manager, Monetary and Economic Department, BIS
J. Dixon, Financial Counselor, Delegation in Washington, CEC
Arthur Dunkel, Director General, GATT
Ali K. Hussain, International Money and Finance Analyst,
Economics and Finance Department, OPEC
Ghulam Ishaq Khan, Chairman, Development Committee
Pierre Languetin, Chairman of the Governing Board, Swiss National
Bank
Goran Ohlin, Assistant Secretary-General, Development Research
and Policy Analysis, UN
J. Pronk, Deputy Secretary-General, UNCTAD