

INTERNATIONAL MONETARY FUND

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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-fifth meeting in Seoul, Korea, on October 6-7, 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. In reviewing the world economic situation, the Committee noted that progress had been made on a number of fronts: inflation had been further reduced, interest rates had continued to fall, recent efforts had been made to ensure a better adjustment of the major exchange rates to economic fundamentals, economic growth had become more convergent across countries, and balance of payments deficits in the developing countries had been considerably reduced. However, the Committee recognized that the pace of economic recovery in industrial countries as a whole had slowed down in the first half of 1985 by more than had been expected and unemployment had remained high, both in developed and developing countries. There had been a significant decline in primary commodity prices and a weakening in developing countries' export earnings and growth prospects. While economic activity was expected to strengthen in the second half of 1985 and in 1986, a number of uncertainties in the outlook were underlined. These included the persistence of high fiscal deficits in a number of countries; an unsustainable pattern of current account positions; weak commodity prices; the fragility in the external position of a number of indebted countries; structural inflexibilities that inhibit growth in many economies; and the resurgence of protectionist pressures.

3. The Committee stressed the importance of noninflationary policies consistent with sustained output growth in industrial countries, the renewal of growth in the developing world through adjustment efforts, and adequate flows of finance to support such efforts. It was generally agreed that fiscal and monetary policies in industrial countries should be framed in a medium-term context, having in mind the importance of reducing governments' claims on real and financial resources, and consolidating progress toward price stability. Particular stress was placed on the need for substantial and sustained reductions of budget deficits by those countries where they are excessive. In addition, the need to broaden further the basis of expansion in the world economy was emphasized. In

this connection, countries that had strong external positions and good inflation records were considered well placed to contribute to growth in the world economy. Concerning policies in developing countries, the Committee considered it particularly important to stress actions that would enhance prospects for durable growth. Such actions would include the achievement and maintenance of an appropriate structure of relative prices, the promotion of investment and domestic savings, and a vigorous attack on inflation. Effective adjustment programs of this type should be supported, in the view of the Committee, by actions on the part of industrial countries to encourage adequate flows of external finance.

4. In reviewing the debt situation, the Committee noted that a number of countries had carried out prudent policies that had allowed them to maintain access to capital markets, and that some others had made policy improvements which strengthened their external position. Nevertheless, several recent developments had adversely affected the external positions of developing countries. Among these developments were the recent weakening of export markets, lower commodity prices, problems in domestic economic management, and difficulties in re-establishing access to capital markets. For a return to a higher and sustainable rate of growth in the indebted countries, which was essential to make debt servicing more manageable, it continued to be necessary that certain conditions be met. These conditions included the maintenance of satisfactory growth in the industrial countries, a policy mix that permitted a further decline in interest rates, effective adjustment in developing countries themselves, appropriate flows of finance, both official and commercial, and firm resistance to protectionist pressures.

5. The Committee reaffirmed the key role of the Fund in promoting the process of adjustment, in providing balance of payments financing, and in helping to mobilize financial resources for the debtor countries.

6. All members of the Committee agreed that protectionism constituted a major threat. They stressed that, unless protectionist measures were resisted, the prospects for sustainable recovery in the world economy would be undermined and the management of the external position of heavily indebted countries would be severely complicated. Protectionist pressures also make more difficult the task of countries that are taking steps to reduce restrictions and open their markets. The members of the Committee expressed the firm determination of their governments to preserve an open trading system in which all countries would have effective access to world markets. The Committee noted with satisfaction the positive development of discussions within GATT with a view to opening a new trade round.

7. The Committee discussed the question of the Fund's policy on enlarged access and the limits on access to the Fund's resources in 1986. It was recalled that enlarged access is a facility of a temporary character, and that this policy and the limits under it, as well as the access limits under the Fund's special facilities, were to be reviewed before the end of 1985.

The Committee recognized that, in view of the uncertainties that remained in the world economy and the serious payments difficulties that many member countries continued to face, there was a need to continue the enlarged access policy, with only modest adjustments for the coming year. It was agreed that the access limits for 1986 should be as follows:

- a) Access under the enlarged access policy in 1986 should be subject to annual limits of 90 or 110 percent of quota, three-year limits of 270 or 330 percent of quota, and cumulative limits of 400 or 440 percent of quota, depending on the seriousness of the balance of payments need of the member country and the strength of its adjustment effort. As at present, the Executive Board should retain the flexibility to approve stand-by or extended arrangements for amounts above these access limits in special circumstances.
- b) The present access limits under the special facilities should be retained.

As at present, access limits should not be regarded as targets. These limits, and the enlarged access policy itself, should be reviewed before the end of 1986, and yearly thereafter, in light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity position.

The Committee requested the Executive Board to complete, before the end of this year, the necessary action in order to implement the agreement reached in the Committee.

8. The Committee had a brief discussion on the question of an SDR allocation in the current basic period. It was confirmed that there was no change in the positions of Committee members on this subject since the Committee's previous meeting and that, therefore, the degree of required support for such an allocation was lacking. The Committee reiterated that the SDR constitutes an integral part of the structure of the Fund and agreed to consider the matter again at its next meeting in the light of developments. The Committee also urged the Executive Board to pursue its planned review on the role of the SDR, in all its aspects, in the international monetary system as a matter of priority, and to submit to the Committee a progress report for consideration by the Committee at its next meeting.

9. The Committee considered the question of the use of the resources that will become available over the period 1985-91, following repayments pertaining to loans made by the Trust Fund. Its conclusions were as follows:

- a) The total amount of these resources (about SDR 2.7 billion), which might be supplemented with funds from other sources, should be used to provide additional balance of payments assistance on concessional terms to the low-income countries eligible for IDA resources that are in need of such assistance and face protracted balance of payments problems. In this connection, the Committee welcomed the statements made by the representatives of China and India that they would not avail themselves of the facility in the period 1985-91.
- b) This assistance should be made available to countries implementing economic programs designed to promote structural adjustment and growth in a medium-term framework. These economic programs should be reviewed periodically. Given the emphasis on structural adjustment, it was important that the Fund should work in close collaboration with the World Bank, whilst avoiding cross-conditionality.
- c) The terms for the use of the resources, such as the rate of interest and the period of repayment, should be similar to those applied to loans from the Trust Fund.
- d) Such arrangements would not adversely affect the availability of concessional development finance for low-income countries not utilizing Trust Fund reflows.

The Committee urged the Executive Board to complete its work on this matter before the Committee's next meeting, in the light of the guidance provided by the Committee.

10. The Committee had a preliminary exchange of views on the reports on the international monetary system presented by the Group of Ten and the Group of Twenty-Four. It was agreed to request the Executive Board to study the issues raised in these reports with a view to facilitating a substantive consideration by the Committee at its next meeting. The Committee welcomed the commitment of its Chairman to communicate with the Chairman of the Development Committee with a view to seeing to what extent arrangements could be made for cooperation on matters pertaining to development.

11. The Committee expressed its appreciation to the Government and the people of the Republic of Korea, and to the City of Seoul for their warm hospitality and for the excellent arrangements provided for the meeting.

The Committee agreed to hold its next meeting in Washington, D.C. on April 9-10, 1986.

INTERIM COMMITTEE ATTENDANCE

October 6-7, 1985

Chairman

H. O. Ruding, Minister of Finance, Netherlands

Managing Director

J. de Larosière

Members or Alternates

Hamad AL-SAYARI, Governor, Saudi Arabian Monetary Agency
(Alternate for Mohammad Abalkhail, Minister of Finance and National Economy, Saudi Arabia)

Abdul Malik AL HAMAR, Governor, United Arab Emirates Central Bank
(Alternate for Hikmat M. Al-Azzawi, Governor, Central Bank of Iraq)

Joë AMARA-BANGALI, Minister of Finance, Sierra Leone

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

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

Rachid BOURAOUY, Governor, Banque Centrale d'Algérie

DAIM Zainuddin, Minister of Finance, Malaysia

Dilson Domingos FUNARO, Minister of Finance, Brazil

Giovanni GORIA, Minister of the Treasury, Italy

Franz VRANITZKY, Minister of Finance, Austria

(Alternate for 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)

Ian STEWART, Economic Secretary, H. M. Treasury, United Kingdom

(Alternate for Nigel Lawson, Chancellor of the Exchequer, United Kingdom)

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

PAY PAY wa Syakassighe, Governor, Banque du Zaïre

Hermod SKANLAND, Governor, Norges Bank

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

W. F. DUISENBERG, President, De Nederlandsche Bank, NV

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

Vishwanath Pratap SINGH, Minister of Finance, India

Mariano RUBIO JIMENEZ, Governor, Banco de España

(Alternate for Carlos Solchaga, Minister of Economy and Finance, Spain)

Juan Vital SOURROUILLE, Minister of Economy, Argentina

Gerhard STOLTENBERG, Federal Minister of Finance, Germany

Noboru TAKESHITA, Minister of Finance, Japan

Michael H. WILSON, Minister of Finance, Canada

Observers

Yves Berthelot, Deputy Secretary-General, UNCTAD
Horst Bockelmann, Economic Adviser, Head of the Monetary
and Economic Department, BIS
A. W. Clausen, President, World Bank
Arthur Dunkel, Director-General, GATT
Chulam Ishaq Khan, Chairman, Development Committee
Pierre Languetin, Chairman of the Governing Board, Swiss
National Bank
Pedro Malan, Director, General Analysis and Policies Division,
Department of International Economic and Social Affairs, UN
Jean-Claude Paye, Secretary-General, OECD
Massimo Russo, Director General, Economic and Financial
Affairs, CEC
Massood V. Samii, Head, Finance Section, Economics and Finance
Department, OPEC