

INTERNATIONAL MONETARY FUND

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Press Communique 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-second meeting in Washington, D.C., on April 12, 1984, under the chairmanship of Mr. Willy De Clercq, Vice Prime Minister, Minister of Finance, and Minister of Foreign Trade of Belgium. 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. The Committee discussed the policies required in present circumstances to improve the economic prospects of all members.

The Committee welcomed the recovery of economic activity that is currently under way in industrial countries at a pace faster than was foreseen. It noted, however, that the effects of this recovery on employment had so far been limited outside the United States and Canada. The reductions in inflation rates which had been substantial in many countries were welcomed. The Committee expressed great concern, however, at the possible consequences of recent increases of key interest rates rising from an already high level.

In reviewing economic conditions in the developing countries, the Committee commented favorably on the fact that the rate of growth appears to be picking up in these countries on average, but regarded the continuing low level of that rate, especially in per capita terms, as a danger and a challenge to policy. It was a matter of regret that, in general, little improvement in inflation rates had yet taken place.

During the course of the last year, the volume of international trade increased significantly, and some improvement in the terms of trade of the non-oil developing countries also took place. These changes were welcomed, although they have not compensated for the deterioration in trade conditions suffered by these countries in recent years.

Balance of payments developments and associated exchange rate movements were examined in the context of the linkages between fiscal deficits, levels of public expenditure, current account positions, interest rates, monetary policies, and the distribution of savings in the global economy.

For the industrial world, the Committee felt that prudent monetary and fiscal policies needed to be set in a medium-term framework so as to preserve and improve upon the better price performance of the recent past, while providing scope and incentive for the recovery of capital investment and continuing strength of total demand. In a number of countries a reduction of fiscal deficits in relation to GNP would be helpful in this respect, and this was regarded as a matter of urgency. It was recognized that in most of the industrial countries substantial structural adaptations were needed to improve the conditions of supply, including discipline in government spending and fewer rigidities in labor and capital markets.

The Committee felt that the immediate policy challenge to developing countries was to maintain and strengthen, where necessary, the adjustment efforts that in many of them are already bearing fruit, as manifested by the reduction of the current account deficits of the non-oil developing countries in 1982-83. It was also noted, however, that a significant part of this reduction was due to a compression of imports. The Committee recognized that adjustment programs, if they are not to lead to continued import compression, which would limit the growth potential of debtor countries and could lead to social and political instability, require more open trade and capital markets as well as continued financial cooperation from governments and the international banking community. The Committee also recognized that low-income developing countries depend heavily on grants and concessional loans to support economic adjustment, and these should, along with improved economic policies, be playing a larger role. In this regard, the Committee noted, in particular, the plight of Sub-Saharan Africa whose problems have been exacerbated by natural disasters and require concerted action on the part of the international community.

The Committee stressed that the economies of the developed and developing countries were closely linked and that the policies of each group vitally influenced the economies of the other.

The Committee expressed its profound concern over the growth of protectionist practices, recognizing that they inhibit the expansion of trade, the adjustment efforts of both developed and developing countries, the control of inflation, and the improvement of living standards worldwide. It was also noted that protectionist pressures in major industrial countries were of particular concern in this regard, in view of the large weight of these countries in world trade. The Committee welcomed the increased attention given to the problem of protectionism in the Fund's surveillance activities, which can help to support the efforts of the GATT and other competent institutions to promote an open trading system. The improvement of trade opportunities, particularly for the heavily indebted countries, will help to lay the foundation for a more broad-based economic recovery and strengthen the international financial system. The

Committee urged members to take action that would contribute to global trade liberalization, and to examine within their respective governments how they could move toward enunciation of a clear, practical policy commitment that would effectively halt the present trend and pave the way for a rollback in protectionism. The Committee expressed the view that in this way a concrete meaning could be given to the recent anti-protectionist pledges made by governments in several international fora, thereby instilling confidence in the shared objective of promoting an open multilateral trading system.

3. The Committee, while recognizing the progress made in the co-operative efforts to deal with the problems of international indebtedness, drew attention to the serious difficulties that continue to beset many member countries. In this respect, the Committee stressed that the debt problems of many developing countries remained serious. High interest rates continue to strain debt-servicing capacity, jeopardizing adjustment efforts. The Committee agreed that a satisfactory resolution of these difficulties would continue to require close cooperation among all parties concerned. Above all, many member countries would need to direct their efforts towards achieving a viable external position. Their success would depend upon the pursuit by all member countries of policies that would contribute to an environment of sustained non-inflationary economic growth and would help to promote an open trading system and the efficient movement of capital, keeping in view the special needs of developing countries. In this connection, the Committee stressed the vital role that the Fund has played, and should continue to play, in these endeavors.

4. The Committee welcomed the considerable strengthening of the Fund's liquidity as a result of the implementation of the quota increases under the Eighth General Review and the augmentation of the GAB, including the full participation by the Swiss National Bank and the conclusion of a borrowing arrangement with Saudi Arabia in association with the GAB. It noted with satisfaction that further borrowing agreements for SDR 6 billion in support of the Fund's policy on enlarged access were in the process of being concluded by the Fund.

5. The Committee also reiterated the concerns it had expressed last September about the special needs of small-quota, low-income countries as regards access to the Fund's resources.

6. The Committee considered again the question of an allocation of SDRs in the current, i.e., the fourth, basic period against the background of the state of international liquidity and the conditions of the world economy.

Most members of the Committee were convinced that there was increased evidence for an SDR allocation, pointing out that, in their view, an allocation in present circumstances would be in full conformity with the requirements of the Fund's Articles, and would strengthen

the world economy and the international monetary system. Some other members of the Committee, however, continued to feel that a global liquidity shortage had not been demonstrated.

No conclusion was reached at this meeting, but it was agreed that the Executive Board should continue, before the next meeting of the Interim Committee, its urgent examination of the issues involved, and that the Managing Director should present a further report at the next meeting of the Committee on the outcome of the Executive Board's discussions.

7. The Committee agreed to hold its next meeting in Washington, D.C., on September 22, 1984.

INTERIM COMMITTEE ATTENDANCE

April 12, 1984

Chairman

Willy De Clercq, Vice Prime Minister, Minister of Finance,
and Minister of Foreign Trade for Belgium

Managing Director

J. de Larosière

Members or Alternates

Hamad AL-SAYARI, Acting Governor, Saudi Arabian Monetary Agency
(Alternate for Mohammad Abal-Khail, Minister of Finance and
National Economy, Saudi Arabia)
Hassan AL-NAJAFI, Governor, Central Bank of Iraq
Rachid BOURAOUI, Governor, Banque Centrale d'Algérie
B.T. CHIDZERO, Minister of Finance, Economic Planning and
Development, Zimbabwe
Holger BAUER, State Secretary, Ministry of Finance, Austria
(Alternate for Willy De Clercq, Vice Prime Minister, Minister
of Finance and Minister of Foreign Trade for Belgium)
Michel CAMDESSUS, Director of the Treasury, Ministry of Economy,
Finance and Budget, France
Ernane GALVEAS, Minister of Finance, Brazil
Giovanni GORIA, Minister of the Treasury, Italy
Bernardo GRINSPUN, Minister of Economy, Argentina
C. J. HURFORD, Minister for Housing and Construction and Minister
assisting the Treasurer, Australia
(Alternate for Paul J. Keating, Treasurer, Australia)
Marc LALONDE, Minister of Finance, Canada
Nigel LAWSON, Chancellor of the Exchequer, United Kingdom
Benito Raul LOSADA, President, Banco Central de Venezuela
QIU Qing (Mrs.), Vice President, People's Bank of China
(Alternate for Lu Peijian, President, People's Bank of China)
Pranab Kumar MUKHERJEE, Minister of Finance, India
Radius PRAWIRO, Minister of Finance, Indonesia
Kjell STORVIK, Under Secretary, Ministry of Finance, Norway
(Alternate for Rolf Presthus, Minister of Finance, Norway)
Donald T. REGAN, Secretary of the Treasury, United States
H. O. RUDING, Minister of Finance, Netherlands
SAMBWA Pida Nbagui, Governor, Banque du Zaïre
Gerhard STOLTENBERG, Federal Minister of Finance, Germany
Haruo MAYEKAWA, Governor, The Bank of Japan
(Alternate for Noboru Takeshita, Minister of Finance, Japan)

Observers

A. W. Clausen, President, IBRD
Ali K. Hussain, International Money and Finance Analyst, Economics
and Finance Department, OPEC

Ghulam Ishaq Khan, Chairman, Development Committee
Alexandre Lamfalussy, Assistant General Manager, BIS
Emile van Lennep, Secretary-General, OECD
F. Leutwiler, Chairman of the Governing Board, Swiss National Bank
M. G. Mathur, Deputy Director-General, GATT
François-Xavier Ortoli, Vice-President for Economic and Financial
Affairs, CEC
Jan Pronk, Deputy Secretary General, UNCTAD
Jean Ripert, Director-General, Development and International
Economic Cooperation, UN