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-first meeting in Washington, D.C., on September 25, 1983, 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. In its discussion of the world economic outlook the Committee noted with satisfaction that economic recovery had begun in the United States and Canada and appeared to be getting under way in a number of other industrial countries. The Committee also noted with satisfaction the abatement of inflation and considered that it had been an important factor in supporting the renewed growth of demand.

In present circumstances, therefore, the aim of policy should be to strengthen the recovery through policies that consolidated the progress made towards a more stable economic and financial environment. A crucial element of this strategy was the need to reassert adequate control over fiscal and monetary policies. It was the view of the Committee that excessive monetary growth should be avoided and that structural budget deficits remained too high in a number of countries. Bringing structural fiscal deficits under control would contribute to a more stable and sustainable path of real growth, as would the continuation of determined efforts to reduce market rigidities and structural imbalances.

The Committee discussed the difficult situation facing developing countries, noting that external financial difficulties had required significant restraint over domestic demand. Particular concern was expressed at the prospect that economic growth in these countries in 1983 was once again expected to be lower than the rate of population increase--a downward revision from the figures considered by the Committee at its meeting in February.

The Committee noted that a considerable reduction had already taken place in the current account deficits of non-oil developing countries. Nonetheless, many of these countries still faced an acute debt service problem and further progress would have to be made before their external position could be considered viable. Attention therefore had to be given to encouraging the continued pursuit of realistic

adjustment policies and to ensuring adequate flows both of official development assistance and of private bank credit. In this latter connection, co-ordinated financial arrangements would be required, involving mutually supportive credits from private banks, multilateral organizations and official lenders.

3. The Committee expressed deep concern about the increasing tendencies toward protectionism. It called on all members to resist, and as soon as possible to rescind, protectionist measures, and stressed the need for the adoption of policies aimed at promoting an open multilateral trade and payments system, which is in the interest of both developed and developing members. In this connection, it called particular attention to the need for all countries, especially heavily indebted developing countries, to have adequate market access, in order to facilitate service of their external debt and at the same time support a reasonable volume of imports.

The Committee was pleased to note that the Fund had intensified its collaboration with GATT and had placed increased emphasis on the subject of protectionism in the exercise of its surveillance responsibilities. More generally, the Committee reiterated its view that the surveillance activities of the Fund should be maintained and strengthened.

4. The Committee stressed the great importance, in current circumstances, of the Fund's role in providing balance of payments assistance to the members that engage in adjustment programs--a role that the Fund can perform effectively only if it has sufficient financial resources. In this connection, the Committee noted with concern the increasing strain on the liquidity position of the Fund, and the prospect of a reduction in the availability of Fund assistance if additional resources are not assured at an early date. In the light of these developments, the Committee strongly endorsed the Managing Director's efforts to arrange additional borrowing from official sources to cover the growing gap between the amounts of borrowed resources that the Fund had committed and those available to it under existing credit lines, and expressed the hope that this borrowing can be successfully concluded without delay.

Given the continued serious balance of payments problems of many members, providing the Fund with adequate resources is a key element in ensuring further progress toward adjustment and hence soundly based growth. The Committee emphasized, therefore, the critical importance of bringing into effect before the end of this year, in accordance with the timetable prescribed by the Board of Governors, the quota increases under the Eighth General Review and the revised and enlarged General Arrangements to Borrow that were approved last March. Reaffirming its view that subscriptions under members' quotas should be the primary source of Fund financing, and recalling that the new quotas could not become effective until increases had been accepted by members having at least 70 per cent of total quotas,

the Committee expressed concern at the fact that members accounting for only 29.2 per cent of total quotas had consented so far. The Committee called on all members that had not yet communicated their consent to complete the steps necessary for this purpose as a matter of urgency.

5. The Committee considered the subject of the access to the Fund's resources after the quota increase under the Eighth General Review becomes effective, taking note of the temporary and revolving nature of the Fund's balance of payments support. The conclusions reached by the Committee are set forth in the following paragraphs. A few members of the Committee stated that they did not agree with all the conclusions on the access limits.

(a) While noting that adjustment appeared to be under way, the Committee recognized that the needs of many members for the type of temporary balance of payments financing that the Fund provides are and may remain large in relation to their quotas. It concluded, therefore, that the policy on enlarged access, which is of a temporary character, should continue for 1984, in accordance with (b), (c), and (d) below.

(b) The access limits and the enlarged access policy will be reviewed yearly to consider the future of the policy, including its termination, its gradual phase-down, or its extension, in light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity position.

(c) Access to the Fund's resources under the policy during the period of extension specified in (a) will be subject to annual limits of 102 or 125 per cent of quota, three-year limits of 306 or 375 per cent of quota, and cumulative limits of 408 or 500 per cent of quota, depending on the seriousness of the balance of payments needs and the strength of the adjustment effort. These limits would be examined periodically in conjunction with the reviews of the enlarged access policy itself. As at present, the Executive Board should retain the flexibility to approve stand-by or extended arrangements for amounts above the access limits in exceptional circumstances.

(d) As at present, the annual and triennial access limits should not be regarded as targets; within these limits, the amount of access in individual cases should vary with the circumstances of the member, in accordance with criteria established for this purpose by the Executive Board.

(e) On the question of access to the Fund's resources under the special facilities after the Eighth General Review becomes effective, some of the members of the Committee would prefer the retention of the present limits. Other members would prefer a lesser amount ranging from 68 to 85 per cent. Accordingly, the Committee asked the Executive Board to consider the matter and to reach a conclusion at the earliest possible date. These limits should be reviewed at the time of each review of the enlarged access policy.

(f) In implementing its policies on access to its resources, the Fund should be particularly mindful of the very difficult circumstances of the small-quota, low-income member countries.

(g) The Committee requested the Executive Board to take, as soon as possible, the necessary action in order to implement the conclusions reached in the Committee.

6. The Committee considered again the question of allocation of SDRs in the current, i.e., the fourth, basic period which began on January 1, 1982. Most members of the Committee were of the view that the recent trends in the state of international liquidity and the conditions of the world economy strengthened the case for an allocation during the current period, while other members were of the view that the case had not yet been made. The Committee agreed that discussions of the issue, which could lead to a proposal by the Managing Director commanding broad support among members of the Fund, should be pursued as a matter of priority.

7. The Committee agreed to hold its next meeting in Washington, D.C., in the spring of 1984.

INTERIM COMMITTEE ATTENDANCE

September 25, 1983

Chairman

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

Managing Director

J. de Larosière

Members of Alternates

Mohammad ABAL-KHAIL, Minister of Finance and National Economy of Saudi Arabia
Hassan AL-NAJAFI, Governor of the Central Bank of Iraq
Rachid BOURAOUI, Governor of the Banque Centrale d'Algérie
B. T. CHIDZERO, Minister of Finance, Economic Planning and Development of Zimbabwe
Pierre WERNER, President of the Government of Luxembourg (Alternate for Willy De Clercq, Vice Prime Minister, Minister of Finance and Minister of Foreign Trade for Belgium)
Jacques DELORS, Minister of Economy, Finance and Budget of France
Ernane GALVEAS, Minister of Finance of Brazil
Giovanni GORIA, Minister of the Treasury of Italy
Paul J. KEATING, Treasurer of the Commonwealth of Australia
Marc LALONDE, Minister of Finance of Canada
Nigel LAWSON, Chancellor of the Exchequer of the United Kingdom
LU Peijian, Governor of the People's Bank of China
Manmohan SINGH, Governor of the Reserve Bank of India (Alternate for Pranab Kumar Mukherjee, Minister of Finance of India)
Jóhannes NORDAL, Governor of The Central Bank of Iceland
Nukul PRACHUABMOH, Governor of the Bank of Thailand
Donald T. REGAN, Secretary of the Treasury of the United States
H. O. RUDING, Minister of Finance of the Netherlands
SAMBWA Pida Nbagui, Governor of the Banque du Zaïre
Jesús SILVA-HERZOG, Secretary of Finance and Public Credit of Mexico
Gerhard STOLTENBERG, Federal Minister of Finance of Germany
Haruo MAYEKAWA, Governor of The Bank of Japan (Alternate for Noboru Takeshita, Minister of Finance of Japan)
Jorge WEHBE, Minister of Economy of Argentina

Observers

A. W. Clausen, President, IBRD
Gamani Corea, Secretary General, UNCTAD
Arthur Dunkel, Director-General, GATT

Observers (continued)

Salah Hamed, Chairman, Intergovernmental Group of Twenty-Four
Ghulam Ishaq Khan, Chairman, Development Committee
Emile van Lennep, Secretary-General, OECD
F. Leutwiler, Chairman of the Governing Board, Swiss National Bank
Francois-Xavier Ortoli, Vice-President for Economic and Financial Affairs, CEC
Jean Ripert, Director General for Development and International Economic Cooperation, UN
M. V. Samii, Head, International Money and Finance Unit, OPEC
Guenter Schleiminger, General Manager, BIS