

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-third meeting in Washington, D.C., on September 22, 1984, under the chairmanship of Mr. Willy De Clercq, Vice-Prime Minister and Minister of Finance and 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 their discussion of the World Economic Outlook, members of the Committee expressed satisfaction that economic growth in the industrial world had been proceeding during 1984 at a 5 percent rate--even more rapidly than expected. They noted that investment had displayed particular strength, and that inflation had remained under control. Concern was voiced, however, that European countries had not yet participated fully in the recovery and that unemployment in these countries remained at very high levels. The Committee expressed concern that the position of many developing countries remained difficult. Nonetheless, in a number of the developing countries, the further reduction in current account deficits that was in prospect was viewed as encouraging, especially as it stemmed increasingly from export growth, and was being accompanied by a return to positive growth in per capita incomes.

The Committee agreed that continued pursuit of a medium-term strategy was appropriate to sustain recovery. Such a strategy would involve, in particular, a disinflationary monetary policy, further action to improve the structure of government budgets and reduce deficits, primarily through reduced spending, and a determined attack on structural rigidities, including protectionist measures, which impede the efficient functioning of markets.

3. While the external debt problems of many developing countries remain serious, the Committee felt that good progress had been made in the implementation of the coordinated strategy of debtors and creditors to tackle these problems within the framework of adjustment programs--a development that has been facilitated by the recovery in world trade. The Committee stressed that a satisfactory resolution of debt problems would continue to require close cooperation among all parties concerned. In this connection, it is important that reasonable economic growth be maintained in industrial countries, that real interest rates come down

substantially from current levels, and that the indebted countries themselves pursue determined adjustment policies. The major industrial countries have a special responsibility to pursue policies that result in noninflationary growth, and permit developing countries adequate access to markets. There is also a continuing need for adequate financing to encourage and facilitate effective adjustment. The borrowing countries themselves have to make the fundamental contribution by persevering with programs of economic adjustment that strengthen their external position, lay the basis for a more effective utilization of resources, and thereby restore creditworthiness and permit the resumption of growth at an early date. In this connection, the Committee welcomed the initiatives toward multiyear debt rescheduling arrangements in cases of effective adjustment. The Committee also stressed the importance of a continuing Fund role in the implementation of the coordinated strategy of external debt management.

4. The Committee expressed concern over the continued resort to protectionist measures. It noted that the drift towards protectionism, if unchecked, would undermine the prospects for world recovery and would impede the smooth functioning of the international trading and financing system. The Committee, therefore, welcomed the commitments to open trade policies undertaken at the London Summit of major industrial countries which have a large weight in world trade, and in other international fora in the recent past. While welcoming some recent actions in some countries to resist protectionist pressures, it called on all members to translate general commitments into concrete actions to prevent new, and to roll back existing, protectionist measures.

The Committee called attention to the need for improved access to foreign markets for the exports of developing countries as an important element in supporting the adjustment efforts of these countries and in contributing to a long-term solution of the debt problem. The Committee also emphasized the importance of increased and effective international surveillance of trade policies. In this regard, it considered that the Fund should continue to give special attention to the problem of protectionism in the context of its surveillance function, and in support of the efforts of the GATT and other institutions having responsibilities in this field.

5. It was agreed that, at its next meeting, the Interim Committee will discuss, in a medium term framework and in the context of the global financial environment and the current approaches toward resolving debt problems, certain issues relating to the adjustment efforts and balance of payments prospects of member countries. These will include external indebtedness, international capital flows, trade policies, and the role of Fund surveillance in dealing with these issues. In this connection, it called on the Managing Director to prepare, in the framework of the Fund's competence, background papers for consideration by the Executive Board, and to report to the next meeting of the Committee, in order to provide a basis for its discussion of these issues.

6. The Committee discussed the question of the Fund's policy on enlarged access and the limits on access to the Fund's resources in 1985. It was recalled that the Fund's policy on enlarged access is a facility of a temporary character, and that this policy and the access limits under it, as well as the access limits under the Fund's special facilities, were to be reviewed before the end of 1984.

The Committee recognized that, in spite of the improvement in the world economic situation, many member countries continued to face difficult payments problems and that serious uncertainties remained about the prospects in the medium term. In these circumstances, the Committee agreed that there was a need for the continuation of the enlarged access policy and it reached the following conclusions on the access limits for 1985:

a. Access under the enlarged access policy in 1985 should be subject to annual limits of 95 or 115 percent of quota, three-year limits of 280 or 345 percent of quota, and cumulative limits of 408 or 450 percent of quota, depending on the seriousness of the balance of payments need and the strength of the 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 exceptional circumstances.

b. The present access limits under the special facilities should be retained.

c. 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 1985, 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 conclusions reached by the Committee.

7. The Committee considered again the question of an SDR allocation against the background of the state of international liquidity and the conditions of the world economy. In this connection, it noted the statement of the Managing Director on the discussions on the subject in the Executive Board.

Most members of the Committee expressed again their firm view that there was a long term global need to supplement existing reserve assets and that an allocation of SDRs 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 members of the Committee, however, continued to feel that a global liquidity shortage had not been demonstrated. In their view, the problems faced

by some countries with reserve inadequacies should be met through adjustment in economic policies and the provision of conditional financing.

While no conclusion was reached at this meeting, the Committee recognized that the matter should be kept under close and continuing consideration. Therefore, it urged the Executive Board to continue its examination of the issues involved. The majority of the members of the Committee agreed that efforts should continue towards the achievement of a broad consensus on an SDR allocation in the current basic period.

8. The Committee agreed to hold its next meeting in Washington, D.C., in April 1985.

INTERIM COMMITTEE ATTENDANCE

September 22, 1984

Chairman

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

Managing Director

J. de Larosière

Members or Alternates

Mohammad ABAL-KHAIL, Minister of Finance and National Economy,
Saudi Arabia
Hassan Tawfik AL-NAJAFI, Governor, Central Bank of Iraq
Pierre BEREGOVY, Minister of Economy, Finance and Budget,
France
Rachid BOURAOUI, Governor, Banque Centrale d'Algérie
Abdulai O. CONTEH, Minister of Finance, Sierra Leone
Jacques F. POOS, Vice President of the Government and Minister
of Economy, Luxembourg
(Alternate for Willy De Clercq, Vice Prime Minister and
Minister of Finance and Foreign Trade, Belgium)
Ernane CALVEAS, Minister of Finance, Brazil
Giovanni GORIA, Minister of the Treasury, Italy
Bernardo GRINSPUN, Minister of Economy, Argentina
Paul J. KEATING, Treasurer, Australia
Nigel LAWSON, Chancellor of the Exchequer, United Kingdom
LIU Hongru, Vice Governor, People's Bank of China
Benito Raul LOSADA, President, Banco Central de Venezuela
Pranab Kumar MUKHERJEE, Minister of Finance, India
Radius PRAWIRO, Minister of Finance, Indonesia
Kjell STORVIK, State 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
Noboru TAKESHITA, Minister of Finance, Japan
Michael WILSON, Minister of Finance, Canada

Observers

A. W. Clausen, President, World Bank
Arthur Dunkel, Director General, GATT
David Henderson, Head, Economics and Statistics
Department, OECD

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Ali K. Hussain, International Money and Finance Analyst,
Economics and Finance Department, OPEC
Ghulam Ishaq Khan, Chairman, Development Committee
F. Leutwiler, Chairman of the Governing Board, Swiss National
Bank
François-Xavier Ortoli, Vice-President for Economic and
Financial Affairs, CEC
J. Pronk, Assistant Secretary General, UNCTAD
Jean Ripert, Director-General, Development and International
Economic Cooperation, UN
Guenter Schleiminger, General Manager, BIS