

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 held its forty-fifth meeting in Washington, D.C. on October 8, 1995 under the chairmanship of Mr. Philippe Maystadt, Deputy Prime Minister and Minister of Finance and External Trade of Belgium.

2. The Committee welcomed the encouraging global economic situation and outlook, which are due in large part to the pursuit of sound policies in many countries. It reaffirmed that the Madrid Declaration continues to be a useful guide for policies.

3. In reviewing progress in implementing the Madrid Declaration, the Committee observed that:

o In the industrial countries, prospects are for sustained non-inflationary growth and policies should continue to be aimed toward this objective. Broad based expansion will help to create jobs, reduce external imbalances and contribute to financial market stability. The Committee welcomed the recent economic stimulus measures announced by the Japanese authorities, the easing of interest rates in Europe, progress toward fiscal consolidation in many countries, and the broad movements in the exchange rates between the key currencies since last April. In many countries, strengthened efforts at fiscal consolidation, and prudent monetary policies, have permitted lower long-term interest rates. Nevertheless much remains to be done, and the current expansion should be taken as an opportunity for vigorous action to tackle fiscal imbalances, to enhance labor market flexibility and to reduce unemployment particularly in Europe and Canada, and to further deregulate and open markets in Japan.

o The Committee commended the impressive growth performance of an increasing number of developing countries. Strong fundamentals and prompt policy adjustments, and avoidance of recourse to exchange controls, have helped restore investor confidence in the aftermath of the Mexican crisis. Strong adjustment efforts by Mexico and other affected countries, with timely and substantial international support, have enabled them to weather the crisis, although the social costs of the crisis have been severe in some of the countries. Elsewhere, especially in Asia, some of the strongest-performing countries now must guard against overheating, with an appropriate use of exchange rate and monetary policy.

o Many low-income countries now enjoy improved growth prospects as a result of their implementation of comprehensive adjustment policies and more favorable external conditions. However, the Committee expressed deep concern about the plight of a number of low-income countries. It called for

the full and constructive implementation of Naples terms by the Paris Club, but emphasized the need to maintain sufficient flows of concessional assistance to low-income countries implementing strong adjustment and reform programs.

o The Committee was encouraged by the resumption of growth in a number of economies in transition that had established firm macroeconomic discipline and implemented early and wide-ranging systemic reforms. Many countries that were less advanced in the transition process have also recently strengthened their stabilization and reform efforts, and are now showing signs of economic recovery. The Committee urged all countries in transition to pursue bold policies that the Fund could support. There is a pressing need for improved enterprise efficiency, cost-effective social safety nets, and financial sector reform. Many of these countries need to address without delay the level and structure of government expenditure and the unsustainable decline in budgetary revenues by improved tax policies and administration. Many also need effective debt control and monitoring, and concern was expressed that some are accumulating external debt unsustainably.

4. The Committee welcomed trade liberalization under the Uruguay Round, and reiterated the importance of further market opening, avoidance of protectionist measures, and reliance on the multilateral framework of the WTO to resolve disputes.

5. The Committee stressed that increased freedom of capital movements and globalized markets bring significant benefits to all countries. Consistent implementation of firm economic policies should help to reduce the volatility of capital movements. The Committee encouraged the Fund, in promoting liberalization in a global market setting, to pay increased attention to capital account issues and the soundness of financial systems, and emphasized the need for improved prudential supervision.

6. The Committee endorsed the conclusions and recommendations of the report of the Executive Board on the regular and timely provision of comprehensive and good quality data to the Fund by members for surveillance purposes, including the identification of a set of 12 core data categories, and on the establishment by the Fund of standards to guide members in their publication of economic and financial data, (including a two tier approach consisting of a general standard for all members and the more demanding standard for those having or seeking access to the capital markets and public identification of countries adhering to the more demanding standard). The Committee stressed the importance of providing technical assistance to interested member countries. It supported publication of the report and requested the Executive Board to complete its work soon, taking into account the views of market participants, so that members who wish to subscribe to the more demanding standard should have the opportunity to do so before the Committee's April 1996 meeting.

7. The Committee stressed the crucial need to safeguard the Fund's liquidity at an adequate level at all times. Accordingly the Committee discussed strengthening the Fund's financial resources:

- o The Committee welcomed the progress already made by the Executive Board on Fund quotas, and requested the Board to move forward with the Eleventh Quinquennial Review, and to report on progress made at the next meeting of the Committee in April 1996.

- o The Committee noted with interest the initiative of the Group of Ten countries to develop new parallel financing arrangements, complementary to the General Arrangements to Borrow, with the aim of doubling the resources currently available under the General Arrangements to Borrow through contributions from members of the G-10 and from other countries with the capacity to support the international financial system; it expressed the strong hope that early progress would be made through a constructive dialogue between the G-10 and potential new participants. The Committee emphasized the importance that all participants should be treated equally, and agreed that expanded borrowing should not be a substitute for a quota increase.

8. The Committee welcomed the consensus in support of continuation of the Enhanced Structural Adjustment Facility (ESAF), including the establishment of a self-sustained ESAF. It agreed that ESAF should continue to be the centerpiece of the Fund's strategy to help the lower-income countries, including those that are heavily indebted. It requested the Executive Board to submit proposals on the future financing of ESAF and to report to the Committee at its next meeting.

9. The Committee noted the on-going work in the Fund, in close collaboration with the World Bank, on how best to address the problems of those low-income countries that are undertaking strong adjustment and reform programs but whose debt situation, including debt to multilateral institutions, may prove unsustainable, even after debt reduction on Naples terms. It encouraged the two institutions to continue their cooperative work on these issues, including country-specific analysis of debt sustainability, and requested the Executive Board to report to the Interim Committee at its next meeting.

10. The Committee endorsed the Board's decisions:

- o to establish exceptional procedures (the emergency financing mechanism) that would enable the Fund to respond promptly and prudently in the event of serious financial crises. It emphasized that use of these procedures would not necessarily imply exceptional financing, and would be subject to strong conditionality.

- o on the conditions under which the Fund should be prepared to support currency stabilization funds, on a short-term basis, in the context of an exchange-rate-based disinflation strategy, and within the limits and guidelines of the current access policy.

o on expanding the scope of the Fund's involvement in post-conflict situations, including the circumstances under which the Fund could provide emergency support in a context of coordinated international assistance.

11. The Committee requested the Executive Board to continue its examination of ways to achieve the agreed objective of participation of all members of the Fund in the SDR system. As part of the wide-ranging review of the role and functions of the SDR in the world financial system, the Committee also looked forward to the results of the seminar to be held in March 1996, with the involvement of outside experts.

12. Members of the Committee had a fruitful informal discussion with Mr. Michel Hansenne, Director General of the International Labor Office on collaboration between the ILO and the IMF in light of the commitments of the UN Social Summit. The Committee agreed that cooperation should be strengthened, with a view to helping Fund missions to acquire a better understanding on labor markets and social protection issues, and ILO staff to further integrate in their own policy advice the view of the Fund on macroeconomic policies and targets for the country concerned. The Committee also recommended that regular exchanges of views and sharing of information should be pursued in the preparation of the Fund's World Economic Outlook and the ILO's World Employment Outlook.

13. The Committee will meet again on April 22, 1996.

INTERIM COMMITTEE ATTENDANCE

October 8, 1995

Chairman

Philippe Maystadt, Minister of Finance, Belgium

Managing Director

Michel Camdessus

Members or Alternates

Hamad Al-Sayari, Governor, Saudi Arabian Monetary Agency
(Alternate for Soliman A. Al-Solaim, Minister of Finance and National Economy, Saudi Arabia)
Sultan N. Al-Suwaidi, Governor, United Arab Emirates Central Bank
(Alternate for Ahmed Humaid Al-Tayer, Minister of State for Financial and Industrial Affairs, United Arab Emirates)
Jean Arthuis, Minister of Economy, Finance and Planning, France
Domingo Felipe Cavallo, Minister of Economy and Public Works and Services, Argentina
Anatoli Chubais, First Deputy Chairman, Russian Federation
Kenneth Clarke, Chancellor of the Exchequer, United Kingdom
Chen Yuan, Deputy Governor, People's Bank of China
(Alternate for Dai Xianglong, Governor, People's Bank of China)
Lamberto Dini, Prime Minister and Minister of the Treasury, Italy
Marcel Doupamby Matoka, Minister of Finance, Economy, Budget, and Equity Financing, Gabon
Sigbjørn Johnsen, Minister of Finance and Customs, Norway
Abdelouahab Keramane, Governor, Banque d'Algérie
Pedro Sampaio Malan, Minister of Finance, Brazil
Paul Martin, Minister of Finance, Canada
Klaus Liebscher, Governor, Austrian National Bank (p.m. session)
and Alfons Verplaetse, Governor, Banque Nationale de Belgique (a.m. session)
(Alternates for Philippe Maystadt, Minister of Finance, Belgium)
Guillermo Ortiz, Secretary of Finance and Public Credit, Mexico
Robert E. Rubin, Secretary of the Treasury, United States
Tomaz Augusto Salomao, Minister of Planning and Finance, Mozambique
Manmohan Singh, Minister of Finance, India
Otto Stich, Minister of Finance, Switzerland
Masayoshi Takemura, Minister of Finance, Japan
Vijit Supinit, Governor, Bank of Thailand
Theo Waigel, Federal Minister of Finance, Germany
Ralph Willis, Treasurer, Australia
Gerrit Zalm, Minister of Finance, Netherlands

Observers

Andrew D. Crockett, General Manager, BIS
Yves-Thibault de Silguy, Commissioner for Economic, Monetary
and Financial Affairs, CEC
Mohamed Kabbaj, Chairman, Joint Development Committee
Roger Lawrence, Director, Global Interdependence Division, UNCTAD
Jean-Claude Milleron, Under-Secretary-General, Department
for Economic and Social Information and Policy Analysis, UN
Jean-Claude Paye, Secretary-General, OECD
Renato Ruggiero, Director-General, WTO
James D. Wolfensohn, President, World Bank