

INTERNATIONAL MONETARY FUND

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September 29, 1996

Communiqué of the Interim Committee of the Board of Governors of the International Monetary Fund

1. The Interim Committee held its forty-seventh meeting in Washington, D.C. on September 29, 1996 under the Chairmanship of Mr. Philippe Maystadt, Deputy Prime Minister and Minister of Finance and of Foreign Trade of Belgium.
2. The Committee welcomed the generally encouraging world economic and financial situation and prospects for a strengthening and broadening of the economic expansion in 1996 and 1997. It noted the progress toward price stability and in reducing fiscal deficits in many countries, the improvement in exchange market conditions among the major currencies, the continuing rapid expansion of trade and financial flows, and the growing reliance on market forces worldwide. The Committee observed that:
 - Developing countries are playing an increasingly significant role in generating growth and expanding trade, with many emerging market economies reaping the benefits of consistent implementation of market-oriented policies, supported by capital inflows including sustained foreign direct investment. The performance of many Asian countries remains impressive: in a number of cases, moderating growth is helping to alleviate inflationary pressures. In an increasing number of African countries per capita incomes and growth prospects are improving as a result of sound policies, although serious problems remain. Many Latin American countries are recovering and experiencing lower inflation, after the difficulties associated with the Mexican crisis. In the Middle East, strengthened adjustment efforts have enhanced growth prospects in several countries.
 - In the transition countries, continued implementation of broad-based reforms is expected to lead to a further strengthening of growth performance, and inflation, though still high, is declining.
 - In the industrial countries, inflation is subdued: sound expansion of output and employment has continued in the United States and some other countries; Japan's recovery is more firmly established; and in continental western Europe, the standstill in growth has ended and conditions are now in place for a resumption of more satisfactory growth.

3. The Committee noted that favorable developments in the world economy reflect the implementation by many countries of policies consistent with the common strategy set out in the October 1994 Madrid Declaration on Cooperation to Strengthen the Global Expansion. It noted that this strategy remained valid. It saw however a need to update and broaden it to take account of new challenges in the changing global environment, in the attached Declaration on "Partnership for Sustainable Global Growth" on September 29, 1996.

4. The Committee welcomed the strengthening of Fund surveillance and the report of the Managing Director on the review of policies in the context of surveillance, which provides valuable lessons for the membership and for the Fund on the conduct of surveillance in the new global environment.

5. The Committee welcomed the Special Data Dissemination Standard and was encouraged by the broad mix of industrial and emerging market countries among its first subscribers; it urged other countries that are in a position to subscribe to do so. It noted the recent initiation of the Data Standards Bulletin Board (DSBB). It looks forward to further enhancement of the DSBB, including the possible establishment of electronic links to country data. It requested the Executive Board to complete work on the general standards for data dissemination, that will apply to all countries, so that they are in place before the Spring 1997 meeting of the committee.

6. With respect to the IMF's financial resources and assistance to members, the Committee:

- Welcomed the progress made by the Executive Board in its work on the Eleventh General Review of Quotas. In view of the evolution of the Fund's prospective liquidity position, and other factors, the Committee requested the Executive Board to continue its work on the Review and to do its utmost to reach a conclusion as soon as possible.
- Welcomed the progress made in establishing the new arrangements to borrow. It noted that these arrangements would effectively double the resources currently available to the Fund under the General Arrangements to Borrow and improve the Fund's ability to meet requests for balance of payments assistance by members in circumstances that could have systemic implications. It requested the participants in the new arrangements, and the Executive Board, to complete their work promptly. The Committee urged the participating members to complete the domestic processes needed to bring these new arrangements into effect as soon as possible.

7. The Committee warmly endorsed the program of action proposed by the Fund and the Bank to ensure that the heavily indebted poor countries (HIPC's) that have shown a sound track record of economic adjustment can attain a sustainable debt situation over the medium term. It endorsed the conclusions by the Executive Board on financing the continuation of ESAF and the Fund's participation in the Initiative to assist the HIPC's to which all members are committed. It also welcomed the agreement to transfer a portion of the ESAF reserves to

support the Fund's participation in the HIPC Initiative with grants or loans on longer maturities. The Committee also welcomed the commitment by the World Bank to the Initiative and the President's willingness to allocate an overall contribution to it. It welcomed the indication that the Paris Club creditors are ready to go beyond Naples terms in providing debt reduction of up to 80 percent for countries qualifying for additional relief within the HIPC Initiative, on a case by case basis according to its usual rules, to achieve an exit from an unsustainable debt. It urged other creditors to participate in the Initiative on an equitable basis. It also reaffirmed the importance of the Fund's preferred creditor status. The Committee requested the Executive Board to proceed quickly with implementation and to report on progress to the Committee in Spring 1997.

8. The Committee welcomed the consensus reached in the Executive Board that all members should receive an equitable share of cumulative SDR allocations through an amendment of the Fund's Articles of Agreement providing for a one-time allocation of SDRs, based on a common benchmark ratio of cumulative allocations to present quotas. The Committee endorsed this approach and requested the Executive Board to finalize its work on the amendment by the time of the Committee's next meeting. The Committee emphasized that such an amendment of the Articles would not in any way affect the Fund's existing power to allocate SDRs on the basis of a finding of long-term global need to supplement reserves as and when that need arises.

9. The Committee asked the Executive Board to continue its analysis of capital flows and their implications, to examine possible changes in the Fund Articles, and to report to the Committee at our next meeting.

10. The Committee will meet again in Washington on April 28, 1997.

September 29, 1996

Interim Committee Declaration

Partnership for Sustainable Global Growth

The Interim Committee has reviewed the **Declaration on Cooperation to Strengthen the Global Expansion**, which it adopted two years ago in Madrid. It notes that the strategy set out in the Declaration, which emphasized sound domestic policies, international cooperation, and global integration, remains valid. It reiterates the objective of promoting full participation of all economies, including the low income countries, in the global economy. Favorable developments in, and prospects for, many industrial, developing, and transition economies owe much to the implementation of sound policies consistent with the common medium-term strategy.

The Interim Committee sees a need to update and broaden the Declaration, in light of the new challenges of a changing global environment, and to strengthen its implementation, in a renewed spirit of partnership. It attaches particular importance to the following:

- Stressing that sound monetary, fiscal, and structural policies are complementary and mutually reinforcing: steady application of consistent policies over the medium term is required to establish the conditions for sustained noninflationary growth and job creation, which are essential for social cohesion.
- Implementing sound macroeconomic policies and avoiding large imbalances are essential to promote financial and exchange rate stability and avoid significant misalignments among currencies.
- Creating a favorable environment for private savings.
- Consolidating the success in bringing inflation down and building on the hard-won credibility of monetary policy.
- Maintaining the impetus of trade liberalization, resisting protectionist pressures, and upholding the multilateral trading system.
- Encouraging current account convertibility and careful progress toward increased freedom of capital movements through efforts to promote stability and financial soundness.

- **Achieving budget balance and strengthened fiscal discipline in a multi-year framework. Continued fiscal imbalances and excessive public indebtedness, and the upward pressures they put on global real interest rates, are threats to financial stability and durable growth. It is essential to enhance the transparency of fiscal policy by persevering with efforts to reduce off-budget transactions and quasi-fiscal deficits.**
- **Improving the quality and composition of fiscal adjustment, by reducing unproductive spending while ensuring adequate basic investment in infrastructure. Because the sustainability of economic growth depends on development of human resources, it is essential to improve education and training; to reform public pension and health systems to ensure their long-term viability and enable the provision of effective health care; and to alleviate poverty and provide well-targeted and affordable social safety nets.**
- **Tackling structural reforms more boldly, including through labor and product market reforms, with a view to increasing employment and reducing other distortions that impede the efficient allocation of resources, so as to make our economies more dynamic and resilient to adverse developments.**
- **Promoting good governance in all its aspects, including by ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption, as essential elements of a framework within which economies can prosper.**
- **Ensuring the soundness of banking systems through strong prudential regulation and supervision, improved coordination, better assessment of credit risk, stringent capital requirements, timely disclosure of banks' financial conditions, action to prevent money laundering, and improved management of banks.**

The Committee encourages the Fund to continue to cooperate with other international organizations in all relevant areas. It welcomes the recent strengthening of Fund surveillance of member countries' policies, which is an integral part of the strategy. It reaffirmed its commitment to strengthen the Fund's capacity to fulfill its mandate. It will keep members' efforts at achieving the common objectives of this strategy under review.

INTERIM COMMITTEE ATTENDANCE

September 29, 1996

Chairman

Philippe Maystadt, Minister of Finance, Belgium

Managing Director

Michel Camdessus

Members or Alternates

Ibrahim A. Al-Assaf, Minister of Finance and National Economy, Saudi Arabia

Sultan N. Al-Surwaidi, 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 and Finance, France

Erik Åsbrink, Minister of Finance, Sweden

Antonio Casas González, President, Banco Central de Venezuela



P. Chidambaram, Minister of Finance, India

M.A.P. Chikaonda, Governor, Reserve Bank of Malawi

Carlo A. Ciampi, Minister of the Treasury, Italy

Kenneth Clarke, Chancellor of the Exchequer, United Kingdom

Peter Costello, Treasurer, Australia

Dai Xianglong, Governor, People's Bank of China

J. Soedradjad Djiwandono, Governor, Bank Indonesia

Marcel Doupamby Matoka, Minister of Finance, Economy, Budget, and Equity Financing, Gabon

Sergei Dubinin, Chairman, Central Bank of the Russian Federation

Roque B. Fernández, Minister of Economy and Public Works and Services, Argentina

Abdelouahab Keramane, Governor, Banque d'Algérie

Wataru Kubo, Minister of Finance, Japan

Pedro Sampaio Malan, Minister of Finance, Brazil

Paul Martin, Minister of Finance, Canada

Viktor Klima, Federal Minister of Finance, Austria

(Alternate for Philippe Maystadt, Minister of Finance, Belgium)

Robert E. Rubin, Secretary of the Treasury, United States

Kaspar Villiger, Minister of Finance, Switzerland

Theo Waigel, Federal Minister of Finance, Germany

Gerrit Zalm, Minister of Finance, Netherlands

Observers

Y. Akyuz, Chief, Macroeconomic Unit, Global Interdependence Division, UNCTAD

Andrew D. Crockett, General Manager, BIS

**Yves-Thibault de Silguy, Commissioner for Economic, Monetary
and Financial Affairs, EC**

Donald J. Johnston, Secretary-General, OECD

Mohamed Kabbaj, Chairman, Joint Development Committee

**Jean-Claude Milleron, Under-Secretary-General for Economic and
Social Information and Policy Analysis, UN**

Renato Ruggiero, Director-General, WTO

James D. Wolfensohn, President, World Bank

