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The world economy continues to be faced with a number of deep-seated imbalances and is finding it difficult to adapt to the shifts in relative prices brought about by the sizable changes in exchange rates and the weakening in commodity prices of the past two years.

In the industrial economies, these shifts have been associated with a worrisome slackening in the growth of output. The substantial improvement in their terms of trade last year provided a weaker stimulus than expected, and the negative impact of the changes in exchange rates on investment and activity in countries with appreciating currencies has come through more quickly than the positive impact in countries with depreciating currencies. The shift in exchange rates, meanwhile, has yet to result in any substantial narrowing of external payments imbalances in the three largest economies. Although underlying trade volumes are beginning to adjust, exchange markets have remained unsettled--which in recent weeks has put pressure on interest rates in the United States, while further undermining investor confidence in the surplus countries--and protectionist sentiment has intensified.

In the developing countries, the weakening of commodity prices has perceptibly increased the burden of servicing external debt. Together with a drying up of net new lending by banks, this has slowed the needed recovery in investment. Policy slippages in a number of countries have aggravated these strains. The debt situation thus remains a major source of uncertainty and concern.

In these circumstances, growth-oriented adjustment is needed more urgently than ever--in the industrial as well as the developing world.

In the industrial world, there has been a substantial realignment of exchange rates, but adequate supporting policies are not yet in place. They must be put in place if a reasonable rate of economic growth is to be maintained while payments imbalances are brought into a more sustainable pattern. In this context, firm action to deal with the U.S. budget deficit remains a sine qua non. While the emphasis on expenditure reduction is surely right, action on the revenue side may also be needed if the commitment to fiscal correction is to be met. Carefully chosen, such action need not harm incentives.

Correspondingly, other countries will need to stimulate domestic expenditure, both to sustain the growth of global demand and to facilitate a reorientation of production in the surplus countries toward domestic markets. In countries where activity is weak and the budget deficit relatively low, the possibility that fiscal policy could be more supportive of demand needs to be explored. A more accommodating stance of monetary policy might also be feasible in some countries, particularly those where rates of inflation are now very low. And structural policy measures--including, in particular, a reduction in trade restrictions in their various guises--offer an important avenue through which many countries can support the global adjustment process. All governments, meanwhile, must unite to resist protectionism.

In the developing countries, the key to restoring creditworthiness will rest on strengthening their ability to undertake productive investment and grow out of their current debt servicing burdens. To this end, all parties to the debt strategy need to intensify their efforts. The indebted countries must be more tenacious in the pursuit of measures to mobilize and retain domestic savings and to improve the efficiency with which resources are used. The industrial countries must do more to foster a favorable global economic environment. And creditors must provide adequate financing, in timely fashion and on appropriate terms, to support strong programs of adjustment.

For low-income countries, it is essential that official creditors support such programs with increased aid and exceptional financial help on concessional terms. In a number of these countries, the Fund has been extending assistance under its Structural Adjustment Facility. A major innovative feature of this assistance is that it requires a comprehensive three-year policy framework to be drawn up that sets out explicitly both the macroeconomic and structural elements of a country's adjustment program. Development assistance agencies have, I know, become increasingly interested in policy-based lending and could. I believe, make greater use of these policy blueprints in assessing the level and composition of their assistance to the countries in question. It would be of particular help if bilateral donors were able to add directly to the flow of resources available from the Fund and the World Bank in support of such multi-year programs. This is a matter on which early action would be most desirable.

For the middle-income debtor countries, it is a resumption of net lending by banks, in support of adjustment, that is now needed--both for the financing it will provide and for the signal it will give. The new readiness of both debtors and creditors to consider a wider range of financing instruments is a welcome development in this context and could, perhaps, be nurtured by the latter group's supervisory authorities.

Mr. Chairman, there should be no illusions. The tasks of sustaining noninflationary growth in the industrial world and dealing with the debt problem pose formidable challenges. In both cases, early and meaningful action is sorely needed to inspire confidence, foster the stability of exchange rates around current levels, and reverse recent disturbing tendencies. Equally, given the magnitude of the tasks, efforts will need to be sustained over a number of years. All this will require an exceptional degree of international collaboration. You may be assured that the Fund stands ready to play its part.