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Remarks by M. Camdessus
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before the Second Committee
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It gives me great pleasure to join you today. A few weeks ago in Washington, the Board of Governors of the IMF held its 42nd Annual Meeting. This morning, I should like to share with you a few thoughts that emerged from that meeting on an issue that features prominently in your current work program: namely, debt and development.

It has long been recognized that for developing countries to accelerate their pace of development and begin to grow out of their debt burdens, a number of conditions will need to be satisfied: effective and appropriate policies in these countries; a supportive international economic environment; and an adequate flow of foreign capital. During the recent discussions in Washington, various speakers expressed dissatisfaction with the extent to which these conditions are in fact being met. Rightly so, in my view. In addition, a number of proposals for refining certain aspects of this strategy were put forward. But there remained a broad and strong consensus that the basic principles underlying the strategy continue to be valid.

The way forward was not seen as requiring a more generalized, legislated approach to dealing with the debt problem. On the contrary, considerations of equity and cost were viewed by many Governors as weighing heavily against any such proposition. I sensed a deepening awareness, too, that any approach that is not freely entered into by a debtor and its creditors--that does not take into account market realities and the individual circumstances of each case--would likely serve to delay, not hasten, the resumption of voluntary financial flows to countries seeking to restore their creditworthiness.

The way forward, rather, was widely perceived to lie in a reinforcement of the present strategy--a reinforcement whereby all the principal actors would do more to play their parts to the full.

Allow me to elaborate, and let me comment in particular on the contribution that the Fund can make.

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There was no dissent among the Fund's Governors from the proposition that the pursuit of appropriate policies in the indebted countries themselves remains fundamental. One need only reflect on the divergent performance in recent years of countries having much the same

economic structure and facing much the same external conditions to see that policies can indeed make a considerable difference.

What has distinguished the policy strategy of those countries that have avoided debt-servicing problems and maintained healthy rates of growth? Four things above all. They have typically given higher priority than the other countries to outward-looking policies. They have typically responded more promptly to external shocks. They have typically taken greater pains to guard against high rates of inflation. And they have typically seen to it that a disproportionate burden of adjustment has not fallen on investment.

The Fund has a responsibility to see that these lessons are more widely understood. More concretely, it has a key role to play in helping member countries to translate these lessons into specific policy measures--in helping, that is, to design strong programs of growth-oriented adjustment.

The precise content of such programs will, of course, vary from one country to another. But there are a number of common considerations of a broader nature that all would do well to keep in mind if there are to be no illusions about strengthening the effectiveness of adjustment efforts. One is that the task of restoring the basis for durable growth requires tough decisions. Another is that in certain cases longer periods may have to be envisaged for the process of adjustment to achieve its objectives. And a third is that technically strong programs will likely be for nought unless governments genuinely believe in them, are steadfast in their resolve to implement them, and work to promote public acceptance of their necessity and usefulness.

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While better economic policies are at the heart of the debt strategy, it is also true that a favorable external environment is vital if such policies are to bear fruit. And the fact is that, in recent years, many developing countries have had to contend with deteriorating terms of trade, sluggish export markets, and growing protectionism in the industrial world.

All this was seen by Governors as underscoring an essential point, namely, that it is not only countries that need to use the Fund's resources that must be expected to adopt appropriate policies. In today's circumstances, adjustment efforts are needed in varying degrees on the part of all countries if the growth-oriented policy measures adopted by developing countries are to achieve their maximum effectiveness. As the Seventh Session of UNCTAD also noted, a durable solution to the debt problem will only be reached by an approach based on development, within the framework of a cooperative growth-oriented strategy.

You may be assured that we in the Fund will give the fullest weight to this consideration in our surveillance work. In particular:

-- We will continue to do our utmost to promote the effective coordination of economic policies among the major industrial countries. Such coordination is essential if the world economy--and, with it, world trade--is to grow at a satisfactory pace while payments imbalances among the major countries are brought into a more sustainable pattern.

-- We will continue to focus the attention of the industrial countries on the consequences of their actions for others. In our work with the major industrial countries, we will seek to ensure that the interests of the rest of the world are considered.

-- And we will continue to work to complement the efforts of the GATT to reverse the tide of protectionism. We can best do this by examining with national policymakers the root causes of protectionist pressures--inappropriate exchange rates, macroeconomic imbalances, structural rigidities, etc.--and by recommending ways to deal with them that avoid reliance on barriers to trade.

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I come now to the third element in our collaborative strategy: the availability of appropriate flows of external financing.

In many heavily indebted countries, ratios of investment to GDP now stand at levels that impinge severely on development prospects. They need to be raised. The solution does not, of course, lie simply in more foreign financing. After all, the present difficulties arose largely because too much lending substituted for domestic savings and financed inefficient investments in the past. But where countries are adopting sound economic reforms, foreign resources do have an important role to play. And the broad consensus among the Fund's Governors was that flows of external financing in recent years have fallen short of the amounts that developing countries could productively use.

In the case of the highly indebted low-income countries, it was widely recognized that assistance will need to be provided on concessional terms and that official creditors thus have a special responsibility. In the middle-income countries, the Governors' primary focus fell on the contribution that banks must make to reinvigorating investment and growth, and the need was seen for them, too, to do more.

The Fund, as you know, has a dual role in this area of the debt strategy: helping to mobilize financing flows from other sources, and standing ready to contribute financially itself.

As regards the former, let me limit my remarks today to our initiative to triple the resources available for lending in association with the Fund's Structural Adjustment Facility to low-income countries

facing exceptional difficulties. I should like to make three points very clear in this context. First, the need for additional concessional resources for these countries is urgent and substantial. I see an enhanced SAF as complementing, not replacing, assistance from other sources. And I see other initiatives in this general area--for example by the World Bank and the Paris Club--as well as the work of such organizations as the UNDP, as being important and mutually supportive. Second, I see an enhanced SAF as more than just a larger pool of resources. Much more. I see access to it as both requiring and facilitating more effective policies in low-income countries than would be likely in the absence of these resources. Third, I see it as crucial that countries that are not eligible to use the SAF not be disadvantaged by the exceptional efforts called for from donor countries.

I was greatly heartened during the Annual Meeting by the wide and strong support voiced by Governors for a substantial enhancement of this facility, and particularly by the announcement of specific pledges by certain countries. Building on this momentum, we are now seeking to complete discussions with all potential contributors. Our aim is to bring the necessary decisions to the Fund's Executive Board by the end of the year.

The new resources that we are seeking to mobilize for the SAF will, of course, be additional to those already available--to all Fund members--under the Fund's ordinary credit facilities. As you know, there have been net repayments to the Fund under these facilities in the recent past. What this reflects is essentially a combination of two things: the very substantial assistance that was provided by the Fund during the early days of the debt crisis and which has been falling due for repayment; and the fact that a number of countries are succeeding in putting their affairs in order and no longer have need to draw on the Fund, or have much less need to draw on the Fund. In fact, seven countries, alone, that fall into this latter category account for approximately one third of all repayments to the Fund since the beginning of 1986. What it does not reflect--and I wish to be very clear on this--is any change in the Fund's policy on the use of its resources.

Given the weak prospects for an early return to spontaneous market access for many heavily indebted countries, the Fund's direct financial involvement in the implementation of the debt strategy has to remain important. Indeed, use of the Fund's resources in the period ahead may have to be larger than contemplated earlier.

Access to those resources will, of course, need to be in support of improvements in the ability of the borrowers to service debt and sustain growth in the medium term. In this connection, it will be clear from what I said earlier that there can, in current circumstances, be no relaxation of efforts by countries with debt-servicing difficulties to mobilize greater savings domestically, put resources to more productive use, and bring the balance between demand and supply into a more

sustainable relationship. On the contrary, these efforts typically need to be strengthened.

We, for our part, must continually ask ourselves whether we cannot implement conditionality and perform the Fund's financial function more efficiently and more effectively.

As regards greater efficiency, an important question is whether conditionality cannot be streamlined--cannot be made less of a deterrent to approaching the Fund--without in any way compromising its effectiveness. Does recent experience, for instance, not perhaps suggest that conditionality loses nothing of its rigor when it is targeted toward a limited number of really essential variables with realistic time frames?

As to greater effectiveness, a key question is whether various financial facilities of the Fund could not be adapted so as to promote better adjustment than we are now getting. It may be possible, for example, that greater use could be made of contingency financing mechanisms to cushion the disruptive effects of unexpected external developments on adjustment programs. Such mechanisms might serve a useful purpose not only in the event of external shocks; they could also perhaps help to give governments the added assurance they may sometimes need to undertake difficult policy reforms in the first place. It may also be worth exploring whether the features of the Extended Fund Facility could be adapted to increase its use, and thus its effectiveness.

The Fund's Executive Board is currently engaged in a thorough examination of adjustment programs and their supporting arrangements, including a comprehensive review of conditionality. The matters I have just mentioned were all aired at the Annual Meeting and are among those that we shall want to consider carefully as we seek to ensure that the Fund's procedures and instruments best serve the interests of its members.

A final word, though. While the Fund needs to continue to respond flexibly and imaginatively to the problems of its members, it cannot do so without the strong commitment and financial support of other parties to the debt strategy. It is not reasonable to expect the Fund to compensate for shortfalls in financing from other sources. We stand ready to complement such financing, but we cannot replace it. All, in short, must play their part; do more; and do it better.