

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 of the Board of Governors of the International Monetary Fund held its thirty-fourth meeting in Washington, D.C. on May 7-8, 1990 under the chairmanship of Mr. Michael H. Wilson, Minister of Finance of Canada. Mr. Michel Camdessus, Managing Director of the International Monetary Fund, participated in the meeting, which was also attended by observers from a number of international and regional organizations and from Switzerland. The Committee expressed its appreciation to Mr. Onno Ruding, former Minister of Finance of the Netherlands, for his invaluable contribution to the work of the Committee during the five years of his stewardship as Committee Chairman.

2. The long economic expansion in the industrial countries has continued, albeit at a slower, more sustainable pace. Inflationary pressures have been countered by appropriately tightened monetary conditions and, though progress has been uneven, external imbalances have narrowed further. In developing countries, the performance of the exporters of manufactures, especially in Asia, generally has remained strong. However, with a few encouraging exceptions, growth has been weak elsewhere, owing in part to some less favorable features in the international environment and in some cases to slippages in the implementation of adjustment policies.

The progress toward completion of the single European market in 1992, the prospective unification of Germany, and successful economic reforms in Eastern Europe will strengthen the outlook for economic growth. These developments, together with the continued need to support productive investment in developing countries, have clear implications for the global demand for capital and for economic policies in industrial countries. Continuing efforts are required in both surplus and deficit countries to reduce external imbalances. In particular, substantial efforts must be made to raise national saving in order to lessen pressure on interest rates and thereby promote investment and alleviate debt burdens. To this end, further progress toward fiscal consolidation is imperative in a number of countries, together with the adoption of policies that reduce impediments to private saving. Structural measures are required to reduce distortions that hinder investment and limit market access, and to remove rigidities that interfere with the efficient allocation of resources and, in some industrial countries, keep unemployment high despite relatively

rapid growth. Recent price developments point to the need for continued vigilance and restraint in monetary policy, particularly in countries where inflationary pressures continue strong. Fiscal and monetary policies should take account of the need to bolster saving and deal with the inflation problems. Policy should also help to foster exchange rates consistent with a better working of the global adjustment process.

Increased saving, structural reform in industrial countries, and freer trade, would improve the international environment and help support a resumption of adequate growth in the developing countries. The conditions for economic recovery in these countries nevertheless depend primarily on strengthened domestic policies aimed at controlling inflation and raising saving, restoring confidence, and achieving greater efficiency in resource use.

3. Market oriented economic reforms in all countries must be encouraged and supported. In particular, the reforms on which Eastern European countries have recently embarked deserve support, but not at the expense of the developing countries. Committee members agreed that the Fund, in the context of a broad international cooperative effort, must continue to provide assistance as these countries steer their economies toward a market system and integrate them into the world economy. In this context, the Committee welcomed the application for membership of Czechoslovakia and Bulgaria.

4. The Committee stressed the vital importance of renewed efforts to counter protectionism and foster a more open and transparent trading system. Although progress has been made in many areas of the Uruguay Round, important issues remain to be solved. Prospects for the world economy and, in particular, for those countries that are seeking to adjust their economies through the adoption of more market-oriented systems depend to a significant degree upon a successful conclusion of the Round by the end of 1990. To this end, all countries are urged to resolve the outstanding issues and achieve the greatest possible reductions in all forms of barriers to trade.

5. The Committee welcomed the progress under the strengthened debt strategy, noting that the arrangements agreed with commercial banks under the strategy can be expected to contribute to an improvement in members' growth and balance of payments prospects. The Committee reaffirmed the guidelines on the Fund's involvement, and similar guidelines in the Bank, which have facilitated a diversity of financial arrangements. These should continue to be implemented with the necessary flexibility. The Committee welcomed the efforts of official bilateral creditors, in particular the actions under the Toronto agreement, as well as the financial contribution made by the Export-Import Bank of Japan, to support debtors' adjustment efforts. It noted the special needs of the lower

middle-income countries. It also noted that programs supported by the Fund would continue to need adequate financing, including in some cases debt restructuring. The Committee emphasized the importance of measures to encourage domestic savings and inflows of capital, including the return of flight capital and new investment, as part of growth-oriented debtor reform programs under the strengthened debt strategy.

6. The Committee underscored the role of the Fund as the central institution for international monetary cooperation, whose resources derive principally from the reserve assets of members. The Committee also emphasized the special contribution of the World Bank in providing long-term financial assistance to developing countries based on its access to capital markets around the world. For these reasons, the Committee stressed the importance of all members lending their active and tangible support to ensure that countries using the resources of the Fund or the Bank fulfill their financial obligations to these institutions in full promptly as they fall due.

7. The Committee commended the Executive Board for its work on the Ninth General Review of Quotas and on the arrears strategy. It expressed satisfaction that the Executive Board had agreed on an interrelated set of measures to increase quotas and strengthen the cooperative strategy on arrears.

On quotas, it welcomed the agreement reached by the Board on the method to be used to distribute the overall increase in quotas, including a special increase in the quota of Japan, as well as on the modalities of the size of the participation requirement and the period of consent to and payment for the increase in quotas. The Committee agreed that:

- a. The present total of Fund quotas should be increased by 50 per cent.
- b. Another review of quotas should be conducted by March 31, 1993, though the review could be conducted earlier if there is a clear need to do so.
- c. The Executive Board should be requested to prepare and complete, for final decision by the Board of Governors before June 30, 1990, a proposed resolution that would include all the necessary provisions to effect increases in the quotas of members in accordance with the agreement already reached by the Executive Board and with the understandings reached during the course of the Committee meeting.
- d. The Committee agreed that the enlarged access policy and the present access limits should remain unchanged until the increase in quotas becomes effective.

8. Noting recent progress in the containment of overdue obligations to the Fund, the Committee stated that the early reduction and elimination of arrears to the Fund is of the highest importance and welcomed the strengthening of the strategy developed by the Executive Board for this purpose. It endorsed the proposed approach that will permit a member in arrears to earn a claim, based on sustained economic performance, toward future financing that can help form a basis for settlement of arrears. In this context the Committee noted the agreed additional safeguard for the use of Enhanced Structural Adjustment Facility resources which help finance the programs. The Committee concurred with the proposal that the Fund pledge use of up to 3 million ounces of gold, if needed, as additional security for use of the resources of the Enhanced Structural Adjustment Facility in connection with the financing of the claims referred to above. It urged that members approve the decisions necessary to establish such a pledge as soon as possible.

The Committee noted that this approach, combined with the techniques already available, and with sufficient cooperation by members, can help them eliminate their existing arrears. It called on all members in arrears to adopt promptly the policies needed to correct imbalances and maladjustments in their economies and regularize their positions with the Fund.

The Committee emphasized that, even as cooperative efforts are being intensified to eliminate arrears, it is necessary to strengthen the Fund's financial position still further and to enhance the instruments available to the Fund to prevent and deter arrears. In this connection:

a. The Committee endorsed an extension of the Fund's mechanisms for the sharing of burdens associated with overdue obligations among creditor and debtor members. This extension, which would be reviewed annually, would accumulate SDR 1 billion over approximately five years, financed by a further adjustment of 0.35 percent to the rate of charge and, subject to the limit in the Articles of Agreement, a further adjustment to the rate of remuneration to yield three times the amount generated by the further adjustment to the rate of charge.

b. The Committee warmly welcomed the proposal for voluntary contributions to this effort by members whose contributions under these mechanisms are not commensurate with those of member countries participating in burden sharing. The Committee considered that such voluntary contributions would complement efforts to support appropriate adjustment policies in countries with protracted arrears and would be fully in keeping with the cooperative nature of the institution. The Committee therefore called upon those members ready to make such contributions to do so expeditiously.

c. The Committee noted that the Executive Board is considering a proposal under which individual contributors under the existing mechanism for coverage of deferred charges would agree that accumulated balances be

retained temporarily in the Fund following settlement of these deferred charges.

d. In order to deal with the rare cases where it is evident that a member with arrears to the Fund is persistently not cooperating with the Fund, the Committee invited the Executive Board to propose to the Board of Governors, by end May 1990, the text of an amendment of the Articles providing for suspension of voting and related rights of members that do not fulfill their obligations under the Articles. The provision for suspension would be activated by a 70 percent majority of the total voting power in the Executive Board. Such an amendment should be proposed to the Board of Governors in a draft resolution separate from the draft resolution on the quota increase. After having carefully listened to the comments of all members, and the reservations of some members, the Committee came to a consensus that, as part of the overall quota increase package, no increase in quota shall become effective before the effective date of such an amendment, and that every effort should be made by members to ensure that both the quota increase and the amendment shall be effective before end 1991. If it appeared that these resolutions might not be effective by this date, the Committee would consider what steps might need to be taken.

9. With the understandings on the increase in quotas and with the steps taken to strengthen the arrears and debt strategies, the Fund is now better equipped to discharge its operational responsibilities toward its member countries. Recent developments indicate that the Fund can be expected to face a heavy workload in dealing with requests for the use of Fund resources and catalyzing other assistance, helping countries in the implementation of their economic reforms, and improving more generally the effectiveness of surveillance. In this connection, the Committee reaffirmed the importance it attaches to surveillance by the Fund as the means for promoting economic policies in members that are conducive to sustainable economic growth and improved global welfare. It stressed that the pursuit of sound economic policies by member countries is a prerequisite for effective international economic cooperation.

10. The Committee also encouraged the Executive Board to continue its analysis of developments and of key issues in the functioning of the *international monetary system*. The Committee emphasized the positive contribution that policy coordination is making to the evolution of the system. It urged the Executive Board to study further improvements that could be implemented and to keep the role of the SDR under review.

11. The Committee agreed to hold its next meeting in Washington, D.C. on September 23, 1990.

INTERIM COMMITTEE ATTENDANCE

May 7-8, 1990

Chairman

Michael H. Wilson, Minister of Finance, Canada

Managing Director

Michel Camdessus

Members or Alternates

Mohammad ABALKHAIL, Minister of Finance and National Economy, Saudi Arabia
Pierre BEREGOVY, Ministry of State for Economy, Finance, and the Budget, France
Nicholas F. BRADY, Secretary of the Treasury, United States
Miss Zelia Maria CARDOSO DE MELLO, Minister of Economy, Finance and Planning, Brazil
Guido CARLI, Minister of the Treasury, Italy
Madhu DANDAVATE, Minister of Finance, India
S. Olu FALAE, Minister of Finance and Economic Development, Nigeria
Antonio Erman GONZALEZ, Minister of Economy, Argentina
Abderrahmane HADJ-NACER, Governor, Banque Centrale d'Algérie
Yasushi MIENO, Governor, The Bank of Japan
(Alternate for Ryutaro Hashimoto, Minister of Finance, Japan)
Bob MCMULLAN, Parliamentary Secretary to the Treasurer, Australia
(Alternate for Paul J. Keating, Deputy Prime Minister and Treasurer, Australia)
Wim KOK, Deputy Prime Minister and Minister of Finance, Netherlands
Rolf KULLBERG, Governor, Bank of Finland
CHEN Yuan, Deputy Governor, People's Bank of China
(Alternate for LI Guixian, State Councillor and Governor of the People's Bank of China)
John MAJOR, Chancellor of the Exchequer, United Kingdom
Philippe MAYSTADT, Minister of Finance, Belgium
Adrianus MOOY, Governor, Bank of Indonesia
PAY PAY wa Syakassighe, Governor, Banque du Zaïre
Mohammed Mehdi SALEH, Acting Minister of Finance, Iraq
Pedro R. TINOCO, Jr., President, Banco Central de Venezuela
Theo WAIGEL, Federal Minister of Finance, Germany
John W. CROW, Governor, Bank of Canada
(Alternate for Michael H. Wilson, Minister of Finance, Canada)

Observers

Rafeeudin Ahmed, Under-Secretary-General for International
Economic and Social Affairs, UN
Pascal Arnaud, Financial Adviser, Delegation in Washington, CEC
S. Balabanoff, Head of Economics Section, Economics and
Finance Department, OPEC
Horst Bockelmann, Economic Adviser and Head of the Monetary
and Economic Department, BIS
B.T.G. Chidzero, Chairman, Development Committee
Barber B. Conable, President, World Bank
Kenneth K.S. Dadzie, Secretary-General, UNCTAD
Markus Lusser, Chairman of the Governing Board, Swiss
National Bank
M.G. Mathur, Deputy Director General, GATT
Jean-Claude Paye, Secretary-General, OECD

