

INTERNATIONAL MONETARY FUND

MASTER FILES
ROOM C-130
PRESS RELEASE NO. 89/8

0411

FOR IMMEDIATE RELEASE
April 4, 1989

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-second meeting in Washington, D.C. on April 3-4, 1989 under the chairmanship of Mr. H. Onno Ruding, Minister of Finance of the Netherlands. 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.

2. The Committee noted that over the last year output and investment in the industrial countries have expanded strongly, employment gains have been significant and more widespread than in earlier periods, and the larger external imbalances have narrowed, especially in real terms. The rapid expansion of world trade has helped to ease the debt position of a number of developing countries, particularly the exporters of manufactures.

There have also been developments, however, that require close attention and action. In the industrial world, the pace of external adjustment recently has slowed, there are signs of intensifying inflationary pressures in some countries, and interest rates have risen sharply in some countries; and, in many heavily indebted developing countries, growth has slackened, debt-servicing burdens have worsened, and inflation has accelerated.

The Committee agreed that it was essential to deal promptly and effectively with emerging price pressures in order to ensure the sustainability of the current expansion, and it noted that action in this direction had been taken in many industrial countries. The evolving process of economic policy coordination provides an appropriate framework for these countries to develop an adequate mix of fiscal and monetary policies, supported by structural policies, in order to maintain noninflationary growth and reduce external imbalances. In the deficit countries, measures to increase national saving are urgently needed. In particular, early action to reduce the U.S. federal budget deficit is essential as well as steps to improve the external position of the United States without pushing up interest rates. Germany and Japan should

pursue macroeconomic and structural policies that will sustain non-inflationary growth of domestic demand and facilitate external adjustment. Other surplus countries, including some of the newly industrializing economies of Asia, could both enhance their standard of living and contribute further to the process of international adjustment through stepped up domestic deregulation, external liberalization and exchange rates which reflect fundamentals.

In view of the vital importance of saving behavior for macroeconomic stability, economic growth and external balances, the Committee thought it important that the Executive Board undertake a study of developments in national saving and of the policy measures needed to foster saving formation conducive to sustained economic expansion.

The failure of growth and investment to recover adequately in most countries with debt-servicing difficulties suggests that these countries need to intensify their efforts to raise domestic saving, encourage investment, promote efficiency, control inflation, and encourage the repatriation of flight capital. For their part, creditors need to ensure that determined reform efforts are met with appropriate and timely financial support.

Efforts in industrial countries to achieve sustained growth with low inflation, a reduction in world interest rates, and a more open trading system, including agriculture, remain of vital importance not only to themselves but also to the developing countries and would also contribute to improving the debt situation. In this regard, the Committee underscored the continuing need to resist protectionist pressures and emphasized that a successful completion of the discussions currently in progress on the midterm review of the Uruguay Round was critical.

Intensified economic policy coordination has made an important contribution to greater stability of exchange rates and to more consistent policy implementation. The Committee urged the Executive Board to continue to strengthen the analytical framework underlying multilateral surveillance, examining the effects of structural measures, and developing criteria for identifying desirable and sustainable policies in a medium term perspective.

In the context of the Fund's responsibility for overseeing the operation of the international monetary system, the Committee welcomed the recent examination by the Executive Board of key issues in the functioning of the system, and of the questions related to the concept, measurement, and distribution of international liquidity. It also noted the discussion of various approaches to enhancing the role of the SDR as a monetary asset. The Committee encouraged the Executive Board to continue work on these matters. It agreed that the question of a resumption of SDR allocations during the remainder of the fifth basic period from 1989-91 should be kept under consideration and reported to the next meeting of the Committee.

3. The Committee welcomed the fact that new proposals had been made by several countries--including France and Japan, and most recently by the Secretary of the U.S. Treasury--designed to strengthen the debt strategy and to place greater emphasis on debt and debt service reduction. These proposals build on the basic principles of the collaborative debt strategy as it has evolved over the past few years. The Committee thus reaffirmed the validity of the case-by-case approach and the central importance of sustained implementation of growth-oriented policy reforms and improvement in the investment climate in debtor countries. New financing flows from private and official sources--which will remain crucially important--and reflows of flight capital depend on appropriate debtor countries' policies. However, official and private lenders must make a determined effort to accelerate their financial support.

The Committee emphasized the central part that continued to be played by the Fund in finding solutions to the debt problem, and stressed in particular its role in assisting countries to adopt and sustain sound economic policies.

The Committee requested the Executive Board to consider as a matter of urgency the issues and actions involved in the proposals that had been put forward. The Committee agreed that the Fund should provide resources in appropriate amounts to members to facilitate debt reduction operations for countries undertaking such sound economic reforms, by setting aside a portion of members' purchases under Fund supported arrangements. The question of provision of resources for limited interest support for transactions involving significant debt or debt service reduction should be examined. Particular attention should be given to the qualification criteria for such operations. In clarifying and elaborating those issues and actions, due account would have to be taken of the mandate of the Fund under the Articles of Agreement and of the need to preserve the financial integrity of the institution. The Committee also stressed that official creditors should not substitute for private lenders and that Fund financial participation in debt alleviation operations should be accompanied by strong financial support, including new money, from commercial banks. The Committee emphasized the importance of proceeding promptly with implementation in cases where members were embarking on strong adjustment programs. In this connection, the Committee warmly welcomed the intention of Japan to extend additional finance in parallel to Fund arrangements within the framework of the strengthened debt strategy. The Committee also considered it important that the World Bank play its commensurate role in the strategy and that the two institutions work in close collaboration on these matters.

The prospect of an improvement in the quality of their claims should encourage commercial banks to move expeditiously in negotiating the necessary waivers to existing contract provisions that may act as impediments to debt alleviation operations. The Committee encouraged the creditor governments to review the extent to which members' tax, regulatory and accounting systems might unnecessarily constrain the participation of commercial banks in such operations.

The Committee pointed out that it was also essential for countries that have maintained market access, but continue to face the challenge of sustaining high growth rates through steadfast adjustment efforts, to be given adequate support. The Fund has an important role to play in such cases, by making available its policy advice, catalyzing foreign financing and offering its own financial assistance.

With regard to low-income countries, the Committee warmly welcomed the rapid implementation of the Berlin agreement on Paris Club reschedulings to provide concessional assistance to the poorest countries, as well as the additional concessional resources made available through international financial institutions. The Committee noted that particular problems remain for those countries that are not benefiting from access to exceptional debt relief, yet cannot afford to finance themselves on market terms. The Committee urged that the policy framework paper (PFP) process be used to improve coordination of policy advice and to mobilize additional external assistance in support of growth oriented adjustment programs by SAF and ESAF eligible countries.

At the same time, the Committee urged all parties concerned--eligible countries, donors and international institutions--to seize upon the opportunity offered by the ESAF and to move rapidly toward the conclusion of related arrangements. Committee members also stressed that members should ensure that their full contributions be made available to the ESAF Trust, and they emphasized the importance of additional subsidy contributions to the Trust.

4. The Committee welcomed the progress made since its last meeting in developing and implementing the Fund's cooperative approach to reducing and eliminating overdue financial obligations. It noted, in particular, that the number of countries with overdue obligations had tended to decline although the overall amount of arrears had continued to rise. It was further noted that several members had made progress in strengthening economic policies that should provide a basis for the mobilization through Support Groups of the external assistance needed to address the problem. The Committee called upon all members with overdue obligations to take strong action to adjust their economies and regularize their relations with the Fund, and urged creditors and donors to provide adequate financing in support of genuine collaborative efforts on the part of these members. To attain this objective, the cooperative approach will need to be implemented forthrightly in all of its three main elements--preventive, collaborative and remedial. In this endeavor, the Fund, whose preferred creditor status was reaffirmed by the Interim Committee meeting in Berlin (West), must permanently enjoy the full support of the entire membership.

5. The Committee agreed that the size and distribution of any quota increase should take into account changes in the world economy since the last review of quotas as well as members' relative positions in the world

economy and the need to maintain a balance between different groups of countries, the Fund's effectiveness in fulfilling its systemic responsibilities, including its role in the strengthened debt strategy, and reduce the Fund's reliance on borrowing. The Committee urged the Executive Board to complete its work on the Ninth Review with a view to a decision on this matter by the Board of Governors before the end of this year.

6. The Committee agreed to hold its next meeting in Washington, D.C. on September 24, 1989.

I
ii.
or
me
e
c
ne

b
it
er
[r
ii

of-

INTERIM COMMITTEE ATTENDANCE

April 3-4, 1989

Chairman

H. O. Ruding, Minister of Finance, Netherlands

Managing Director

Michel Camdessus

Members or Alternates

Hamad AL-SAYARI, Governor, Saudi Arabian Monetary Agency
(Alternate for Mohammad Abalkhail, Minister of Finance
and National Economy, Saudi Arabia)
Hikmat Omar AL-HADITHI, Minister of Finance, Iraq
Giuliano AMATO, Minister of the Treasury, Italy
Pedro ASPE, Secretary of Finance and Public Credit, Mexico
Pierre BEREGOVOY, Ministry of State for Economy, Finance,
and the Budget, France
Nicholas F. BRADY, Secretary of the Treasury, United States
S. B. CHAVAN, Minister of Finance, India
Peter MORRIS, Minister Assisting the Treasurer, Australia
(Alternate for Paul J. Keating, Treasurer, Australia)
Nigel LAWSON, Chancellor of the Exchequer, United Kingdom
Ms. QIU Qing, Deputy Governor, People's Bank of China
(Alternate for LI Guixian, State Councillor and Governor
of the People's Bank of China)
Philippe MAYSTADT, Minister of Finance, Belgium
Satoshi SUMITA, Governor, The Bank of Japan
(Alternate for Tatsuo Murayama, Minister of Finance, Japan)
Mailson Ferreira da NOBREGA, Minister of Finance, Brazil
Bader-Eddine NOUIOUA, Governor, Banque Centrale d'Algérie
Chu S. P. OKONGWU, Minister of Finance and Economic
Development, Nigeria
PAY PAY wa Syakassighe, Governor, Banque du Zaire
Niels Helveg PETERSEN, Minister of Economic Affairs, Denmark
W.F. DUISENBERG, President, De Nederlandsche Bank N.V.
(Alternate for H. O. Ruding, Minister of Finance, Netherlands)
Kamchorn SATHIRAKUL, Governor, Bank of Thailand
Gerhard STOLTENBERG, Federal Minister of Finance, Germany
Michael H. WILSON, Minister of Finance, Canada
Ricardo ZERBINO CAVAJANI, Minister of Economy and Finance,
Uruguay

Observers

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
John Croome, Director, Trade and Finance Division, GATT
Kenneth K. S. Dadzie, Secretary-General, UNCTAD
Taiwo D. Idemudia, Head, Economics Section, Economics and
Finance Department, OPEC
Markus Lusser, Chairman of the Governing Board, Swiss
National Bank
Alain Morisset, First Secretary for Economic and Financial
Affairs, Delegation in Washington, CEC
Goran Ohlin, Assistant Secretary-General, Department of
International Economic and Social Affairs, UN
Jean-Claude Paye, Secretary-General, OECD

