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0404

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 88/142

3:00 p.m., September 7, 1988

M. Camdessus, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A. Abdallah	
	C. Enoch
	Zhang Z.
	C. S. Warner
	D. C. Templeman, Temporary
J. de Groote	
	E. C. Demaestri, Temporary
M. Finaish	
G. Grosche	
J. E. Ismael	J. Reddy
	J. E. Zeas, Temporary
M. Massé	
Mawakani Samba	
Y. A. Nimatallah	
G. Ortiz	
J. Ovi	
H. Ploix	D. Marcel
G. A. Posthumus	
C. R. Rye	C.-Y. Lim
G. Salehkhou	O. Kabbaj
	L. E. N. Fernando
	A. Vasudevan, Temporary
K. Yamazaki	S. Yoshikuni
S. Zecchini	

L. Van Houtven, Secretary and Counsellor
M. J. Miller, Assistant

Also Present

Asian Department: B. B. Aghevli, R. J. Corker. European Department: M. Russo, Director; P. E. Guidotti. Exchange and Trade Relations Department: J. T. Boorman, Deputy Director; R. A. Feldman. External Relations Department: R. J. Bhatia, Special Representative to the United Nations; D. D. Driscoll, P. C. Hole. Fiscal Affairs Department: V. Tanzi, Director; K.-Y. Chu, A. H. Mansur. IMF Institute: O. B. Makalou. Legal Department: T. M. C. Asser. Middle Eastern Department: S. von Post. Research Department: J. A. Frenkel, Economic Counsellor and Director; A. D. Crockett, Deputy Director; M. Goldstein, Deputy Director; F. C. Adams, T. Bayoumi, J. S. Bhandari, N. R. Chrimes, R. A. Feldman, S. J. A. Gorne, J. H. Green, Y. Harada, E. Hernández-Catá, M. S. Khan, F. Larsen, P. R. Masson, P. J. Montiel, B. E. Rourke, M. Schulze-Ghattas, S. A. Symansky, E. Y. P. Tung, M. A. Wattleworth. Treasurer's Department: Y. Ozeki. Western Hemisphere Department: S. T. Beza, Director; Y. Horiguchi. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: N. Adachi, M. B. Chatah, W. N. Engert, J. Hospedales, K. N. Khong, J.-C. Obame, P. D. Péroz, M. Pétursson, G. Pineau. Assistants to Executive Directors: S. Appetiti, H. S. Binay, R. Comotto, V. J. Fernández, B. R. Fuleihan, C. L. Haynes, J. Heywood, A. Iljas, D. V. Nhien, C. Noriega, W. K. Parmena, Shao Z., C. C. A. van den Berg, R. Wenzel.

1. WORLD ECONOMIC OUTLOOK

The Executive Directors continued from the previous meeting (EBM/88/141, 9/7/88) their discussion of the staff paper on the world economic outlook (EBS/88/167, 8/15/88; and Cor. 1, 8/19/88). They also had before them a background paper with annexes (SM/88/181, 8/16/88) and a statistical appendix (SM/88/180, 8/16/88).

Mr. Nimatallah remarked that Mr. Yamazaki had made two points with which he did not agree, namely, that the Fund should not become involved in structural adjustment, and that information on progress made in implementing structural adjustment measures should not be published. It was his view that, in light of the fact that Japan's economy had a large impact on the world economy and on the economies of other countries, it was only appropriate that the world should learn about developments in Japan. Furthermore, the Fund was already involved with the structural adjustment policies of developing countries; hence, if the Fund did not become further involved in the structural adjustment policies of industrial countries, it might appear lacking in evenhandedness, something that was not acceptable. Perhaps the best way of approaching the anxiety of the Japanese authorities concerning the progress of structural adjustment in their economy would be an acceleration of the process of removing the rigidities that still existed. A negative approach to structural adjustment issues was inadvisable, especially as it might signify a departure from policy coordination. The matter of the role of structural adjustment needed to be addressed by all countries collectively.

The Chairman said that he was persuaded that the Japanese authorities had an open mind on structural adjustment issues.

Mr. Yamazaki stated that, in fact, his authorities accorded the highest importance to the role of structural reforms and to the role of the Fund in structural adjustment policies. However, his authorities had strong reservations and objections to the use of quantitative structural indicators as a unilateral tool for specific policy recommendations. The thrust of what the staff had presented in the paper did not differ significantly from the position of his authorities. Furthermore, a number of Directors had supported the staff's view that an overly sophisticated approach to structural adjustment indicators was not an essential factor in identifying the necessary structural policies.

Regarding the specific proposals, Mr. Yamazaki continued, his authorities strongly supported the Fund's important role in identifying areas where structural adjustment could be applied, and which would serve as the basis for the Fund's general advice to governmental authorities. However, his authorities were concerned about the possible adverse effects of publishing such advice on the process of structural adjustment, particularly in Japan. The publication of specific proposals by the Fund would, in the case of his own country, cause unnecessary disputes, because of the delicate and sensitive institutional relationships between various ministries. In the final analysis, the efforts of the authorities would

be seriously hindered, and the act of publication would be seen to be counterproductive for the structural adjustment process.

Mr. Nimatallah commented that, in his view, one of the means by which structural adjustment could be accelerated, both domestically and internationally, was through the support of international organizations for national authorities in the process of considering or implementing structural adjustment. In many countries, groups put pressure on the authorities to counteract structural adjustment measures; hence, the support of international bodies was necessary. For example, in the area of trade, President Reagan of the United States had often gone directly to the public to gain its support, counteracting the effects of pressure groups. Likewise, the publication of information on structural rigidities and how they could be removed would assist the authorities and stimulate discussion and debate. Such debates were not undesirable, in his view. The studies by the Fund and other international organizations would support the arguments of the national authorities. That conclusion notwithstanding, he understood that there might be reasons for not publishing particular kinds of information from time to time, but those specific instances could be dealt with on a case-by-case basis.

Mr. Yamazaki stated that he appreciated Mr. Nimatallah's insights, and that they would be conveyed to his Government. However, the publication of specific policy recommendations of a structural nature would not contribute to progress in structural adjustment in Japan. In Japan, the responsibility for deciding upon structural adjustment measures was spread across a number of government departments. His chair represented the financial part of the Government, the jurisdiction of which did not extend to all those areas that might be covered by structural measures. It was important to remember that, to be most effective, structural reforms would need to be carried out in the context of the unique situation of each country, on a case-by-case basis.

Mr. Ovi made the following statement:

> We note with satisfaction that the rate of economic growth in industrial countries has been somewhat higher than anticipated, while the external imbalances have been reduced, at least in real terms. However, there are still a number of concerns. We concur with the staff that the risk that inflation will re-emerge is greater now than it has been for some time. The reduction of the external imbalances remains slow, and, consequently, a further appreciation of the dollar would threaten the continued necessary adjustment of those imbalances. Also, protectionist tendencies and lack of structural adjustment, in developing countries and industrial countries alike, hamper the international economic adjustment process.
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> Increased demand in the industrial countries and higher commodity prices have enhanced exports for the developing countries as a group. Hence, the ratio of debt to exports,

which started to decline in 1987, will fall further this year. Nevertheless, economic growth in the developing countries as a whole is still weak, but with large differences between individual countries. A large debt burden, inadequate economic adjustment, and an anticipated decline in economic growth in the industrial countries, combined with the risk of further increases in international interest rates, continue to make the economic situation very precarious, particularly for the poorest African countries. In Latin American countries, accelerating inflation threatens economic adjustment and future growth. As regards the debtor countries in general, we concur with the staff's assessment that strong economic adjustment efforts in most of these countries will be necessary for the resolution of debt problems. However, the assumptions on which the staff bases its somewhat optimistic assessment of future developments seem rather uncertain. We have doubts about, inter alia, the staff's assessment that net capital flows from private creditors to debtor countries will resume in 1991-92. In our view, the chief characteristic of the period ahead is likely to be one of highly diversified development among these countries.

For the remainder of 1988 and for 1989, economic growth in general is expected to decelerate. The factors that have added to economic growth in 1988 appear to be mainly temporary. In several European countries, economic growth is sluggish and unemployment is still unacceptably high. In a number of countries, this has taken place in conjunction with a very slow rate of inflation and substantial external surpluses.

In the absence of stronger fiscal coordination between major countries, the risk of further exchange rate turbulence and international interest rate increases is likely to grow. In the United States, for example, the budget deficit should be reduced somewhat more rapidly than is envisaged in the revised Gramm-Rudman-Hollings Act. Given the persistently low level of private savings, tighter fiscal policy appears to be the most feasible alternative for the U.S. authorities to simultaneously dampen inflationary pressures and support external adjustment. At the same time, it is highly important that other countries, most notably Germany, aim at achieving a higher level of domestic demand, and that the growth in the Japanese economy be maintained at a high level. Given the often very rapid transmission internationally of interest rate increases, recent economic policy developments once again underscore the fact that, in major industrial countries, the burden being placed on monetary policies, compared to fiscal adjustment, is excessive.

Significant changes in exchange rates would not be helpful in the present economic situation. Thus, the stability of the exchange market should be supported, in the short term, by active and coordinated intervention policies.

With respect to the prospects for inflation, in a number of countries increases in the monetary aggregates have been rather expansionary. Also, several countries are operating close to their capacity constraints. We concur with the staff that the situation needs to be closely monitored, although we find reasons to caution against an excessively stringent interpretation of the growth in monetary aggregates. In light of the fact that economic growth is expected to level off, we are still somewhat skeptical about actual implementation of the staff's recommendation that actions may be warranted on the basis of "early, and sometimes ambiguous, warning signals." In light of the fact that the negative effects of inflation originate, to a large extent, in expectations and changes in confidence, we hope that surplus countries will not overreact in tightening their economic policies.

The medium-term scenarios are a positive contribution to the discussion of the formulation of international economic policy. The reference scenario highlights a number of concerns, such as the continued high level of unemployment in Europe and the inadequate reduction of external imbalances. This scenario reflects, in part, the damaging effects of not having had exchange rates anchored to developments in the economic fundamentals for a longer period, which has resulted in serious, although not easily quantifiable, misallocations of resources.

Clearly, at the country level, structural initiatives, coupled with macroeconomic adjustment, must aim at more consistency between domestic demand and the external balance. It is noteworthy that, according to the reference scenario, the increase in domestic demand in Germany and in the United States will be only slightly above the GNP growth rate in Germany and slightly below that in the United States. It is essential for the adjustment process that larger divergences be achieved in this regard, and that they be achieved in a symmetrical fashion. Otherwise, in the event of an isolated tightening of fiscal policy in the United States, for example, there is a clear risk of increasing imbalances among European countries.

The need for, and the form of, structural adjustment will vary from one country to another. However, intensified measures in the trade area are a necessity for all countries, not least of all the industrial countries. In the United States, efforts should also be concentrated on measures to enhance private savings, while measures directed toward the labor market and a reduction of the level of industrial support are important in Europe. In Japan, the continued strong growth in domestic demand, particularly investment, will depend inter alia on the designation of additional land for housing and commercial purposes.

In general, we support the Fund's continued analysis and discussion of structural policies both in consultation reports and in the world economic outlook, without, however, increasing Fund resources for that objective.

This chair has spoken in favor of a pragmatic approach to the coordination of economic policies and the use of relatively few economic indicators. We acknowledge the degree of difficulty in a general application of indicators, particularly in connection with structural policies. At this juncture, however, I will refrain from commenting on policy coordination and on the specific issue of economic indicators, as these subjects will be covered at the discussion on international economic coordination scheduled for September 9, 1988.

On the issue of structural indicators, I found myself very much in agreement with Mr. Enoch. We have an open mind on the issue. We should certainly avoid forming definite opinions ahead of the general Board discussion of the issue in November 1988. However, I strongly suspect that the conclusion of the study will be that structural policies could have only a supporting role. Like Mrs. Ploix, I find it important that we not stake all our hopes on structural policies and neglect the importance of macroeconomic policy measures. I welcome the Chairman's remarks on recent measures to improve the relationship between the OECD and the Fund with respect to the work on structural indicators, but the staff should elaborate on what has been agreed between the organizations as to the division of labor.

The Chairman commented that serious, in-depth work on structural issues had begun only relatively recently. The Fund and the OECD had decided to adopt a pragmatic approach--as their collaboration was at a preliminary stage--allowing the staffs of the organizations to work together and ensuring that papers were exchanged in draft form. Each organization had been careful not to duplicate the work done by the other.

Mr. Templeman made the following statement:

While it was already fairly evident at the time of our discussion of the world economic outlook in April 1988 that the stock market decline of October 1987 was having a smaller effect on the world economy than might have been expected, the data that have been received since then clearly confirm it, and the new projections in the world economic outlook show a considerably more favorable outcome in 1987 and outlook for 1988-89 than were expected last April.

In our view, close international economic policy coordination has played an important role in bringing this about. As we indicated at the discussion of the staff report for the 1988 Article IV consultation with the United States (EBM/88/130 and EBM/88/131, 8/29/88), my authorities view such coordination as a framework for the formulation and implementation of their domestic and external adjustment policies, and not as a substitute for such adjustment. In fact, appropriate shifts in relative domestic demand in deficit and surplus countries have been underway for some time, reflecting policy actions and policy coordination in the fiscal, monetary, and exchange rate areas. Also, some progress is being made by major industrial countries in analyzing and implementing some structural adjustment policies. We very much welcome the attention given in the current world economic outlook to the use of economic indicators, the importance of structural policies, and the exploration of the question of possible structural indicators in Annex III of SM/88/181. We do not believe that the implied criticism of the Unites States-Canada free trade agreement on page 48 of the main paper is justified, since the liberalization of trade between the two countries does not involve any strengthening of barriers to nonparticipants.

As to the question of the continuation of large external imbalances among the major industrial countries, somewhat faster-than-expected growth in domestic demand in the United States for 1988 and 1989 does not seem to be impeding current account adjustment, as U.S. imports--in both nominal and real terms--have begun to fall, despite strong U.S. growth. Thus, the net foreign balance in real terms this year would be little changed from the April world economic outlook estimate. For 1989, there would be a somewhat larger downward revision in the positive contribution of the net foreign balance to U.S. growth, but, in dollar terms, the present estimate of the U.S. current account deficit in 1989 would be essentially unchanged from April.

The failure of the U.S. current account deficit to decline very much in most of the medium-term scenarios is somewhat puzzling and raises some questions about the strength of the relationship between U.S. fiscal adjustment and U.S. current account adjustment. For example, the world economic outlook's reference scenario shows a reduction of 1.5 percent of GNP in the U.S. fiscal deficit between 1987 and 1992. However, there would be a reduction of only 0.3 percentage point in the U.S. current account deficit. The corresponding worsening of 1.2 percentage points in the net private savings/investment balance would be due to a considerable rise in the private investment ratio, with very little offsetting rise in the private savings ratio. This pattern implies that, even with further U.S. fiscal adjustment, the U.S. current account deficit

ratio is not likely to be reduced very much further without some combination of stronger foreign demand, U.S. growth below potential, a higher private U.S. savings rate, or exchange rate movement. Of course, U.S. fiscal adjustment and an improved U.S. private savings performance are essential, but they need to be supported by macroeconomic and structural adjustment abroad to foster the growth of domestic demand and create markets for U.S. exports in Europe, Japan, and in the newly industrializing developing countries.

For Germany and Japan, the reference scenario over the medium term also suggests some interesting, and perhaps surprising, shifts in savings/investment patterns. For example, taking into account the projected shifts in the fiscal balances of Germany and Japan between 1987 and 1992, there would need to be a rather large decline in Japan's net private savings rate, while Germany's private savings rate would remain at historically rather high levels. We wonder whether a decline in the Japanese rate is likely and, if the German rate stays that high, whether it might well be a symptom of inadequate investment and growth in Germany over the medium term.

We are also somewhat puzzled about where the counterpart surpluses to continued large U.S. current account deficits will be over the medium term, since current account surpluses in Japan and Germany would appear to be declining relatively more than the U.S. current account deficit would be declining. While it is difficult to forecast current account balances through 1992 in nominal dollar terms, we understand that the current account ratios for the U.S., Japan, and Germany imply an increase--by about $100 billion--in the statistical discrepancy between surpluses and deficits, or, in other words, an increase of that amount in missing surpluses that is required to offset the size of the estimated U.S. deficit.

The second potential source of concern regarding continued stable economic expansion addressed in the staff paper is the possible resurgence of inflation. We agree that inflation pressures need to be monitored carefully, but we share the view that a significant acceleration in inflation does not appear likely. Some one-time-only transitory increases in price levels could occur, owing to such factors as the pass-through of higher import prices, excise tax increases in some countries, and drought in the United States. While the drought is contributing somewhat to U.S. food price increases, the current level of food stocks should mitigate them, and the impact of increases in prices at the farmgate on prices at the retail level should be fairly modest. U.S. wage rate developments, too, show only modest evidence of pressure, reflecting continuing progress in job creation and quite stable inflationary expectations. Finally, we were somewhat surprised at the staff's particular

focus on high rates of capacity utilization in the United States as a potential source of inflation, since it appears from Chart 2 in the main paper that capacity limits in the United States are being approached at about the same extent as most industrial countries.

Fiscal and monetary policies in the United States and other major industrial countries are generally moving in the right direction to head off any resurgence of inflation, as well as to achieve continued adjustment of external and fiscal imbalances. There was already a sharp reduction in the U.S. fiscal deficit in 1987, with the negative fiscal impulse being absorbed quite easily. The budget compromise for fiscal years 1988 and 1989 should be effective in holding the line during the transition to a new Administration in 1989, when a renewed fiscal adjustment effort should begin. We expect the recent cautious move toward somewhat greater monetary restraint in the United States to contribute to future price stability, with continued growth.

The fiscal, monetary, and structural policies of other industrial countries will have a major effect on the achievement of world economic growth without a resurgence of inflation. Continued close cooperation in the monetary and exchange market areas will be important.

We very much welcome the attention given to structural policies in the world economic outlook paper and in Annex III. The focus of structural reform efforts will depend on the individual countries concerned. In general, we recognize that the private savings rate in the United States is a problem. In the European countries in general, labor market rigidities, financial market reforms, sectoral subsidies, and agricultural protectionism seem to be the key problems. In Japan, the liberalization and modernization of financial markets needs to continue, building on the impressive progress that has already been made. The distribution system for goods and services also needs to be addressed, and a reduction of subsidies to agriculture to permit alternative land use merits further attention.

The role of the Fund in monitoring structural reforms in the industrial countries should be multifaceted. Article IV consultations offer the best opportunity for in-depth examination of particular countries. The special appendices to the consultation reports which the staff has been preparing are particularly useful. However, the analysis, policy issues, and recommendations need to be given more attention during consultations with the authorities and during the Board discussion. We will also need to continue Board reviews of progress in the use of indicators, including further examination of the possibility of developing indicators in the structural field.

The staff poses questions about whether the recent movements of the dollar in the exchange markets have contributed to a sustainable alignment of exchange rates, and whether they have implications for exchange rate arrangements among the major member countries. These complex and long-term questions cannot be answered today. I would simply stress that foreign exchange market understandings form part of the broader range of policies covered by the international policy coordination effort, which needs to be continued and strengthened.

Mr. Nimatallah recalled that the United States had supported the identification of indicators that would provide early warning signs of inflation. Generally speaking, inflation became well established before any action was taken to address it. In his view, the industrial countries were doing well to explore the variables that might serve as early warning signs of inflation, so that it could be nipped in the bud. Although it was true that inflation indicators in other countries, and not only in the United States, showed that inflation was increasing, that did not mean that the United States was not also approaching an inflationary period. The drought, and other factors of a temporary nature, had contributed to inflation, but the most important factor was the increasing cost of production. Whether that was due to labor market tightening or to an increase in the prices of domestic and imported commodities was not really relevant.

Although Mr. Templeman had commented that the fiscal deficit was moving in the right direction, and while he agreed that the U.S. authorities were committed to doing more, Mr. Templeman had said nothing about a possible acceleration in the reduction of the fiscal deficit, Mr. Nimatallah noted. Such an acceleration would be very helpful, not only in the United States, but also in the United Kingdom and in Italy, as well as in those countries that could afford to squeeze expenditure just long enough to assist monetary policy. Otherwise, an unhealthy increase in interest rates would result, choking off the investment that was needed to enlarge productive capacity.

Mr. Templeman stated that his authorities were alert to the problem of inflation. The discount rate had been raised by one half of a percentage point recently, with potential costs to other economic objectives. However, the statistical information through July 1988 did not provide firm evidence of a significant increase in inflation. The cost of living had been rising by from 0.3 to 0.4 percent a month quite consistently for about 18 months, including through July. Of course, that did not mean that such a trend would continue, but there was no evidence of an acceleration of inflation at present.

Considering the political environment, Mr. Templeman continued, the compromise that had been reached with respect to the fiscal deficit for fiscal year 1988/89 had not been a bad one, as the line had been held on nominal expenditures. The reduction of the deficit as a percentage of GNP

would be continued in the following two years, and the prospects were good that a renewed effort to address the deficit would be undertaken in the next year. Also, it needed to be recognized that the authorities had regularly overestimated the size of the fiscal deficit in the preceding two or three years. If the assumption was that no policy measures would be taken, then, of course the deficit would not decline, but policy measures would be taken. The Government was obliged to adhere to the Gramm-Rudman-Hollings Act. How fast the reduction in the deficit ought to be was a matter of debate, but his authorities believed that the reduction they were making was relatively fast. For example, a number of the scenarios that had been presented for the 1988 Article IV consultation with the United States had shown that the general government would be in surplus within two years. In his view, such an adjustment would be considerable.

Mr. Finaish made the following statement:

The performance of the world economy so far this year, particularly when seen from the perspective of the industrial countries, has been in many ways better than what was expected last fall in the wake of the stock market collapse. As the staff papers indicate, the noninflationary expansion of economic activity continued in the industrial countries, while external imbalances among the major countries declined significantly in real terms. Moreover, private capital inflows appear to have been the main source of financing for the U.S. external deficit, unlike the previous year, when official flows from the surplus countries were needed to substitute for reluctant private investors. Policy coordination among the major industrial countries has probably contributed to this relatively favorable performance, both directly and, equally importantly, by increasing market confidence in the management of the global economy.

Unfortunately, however, the current state of the world economy is not nearly as bright as it may look on the surface. On the one hand, the risks to the current noninflationary expansion in the industrial world are still present. On the other hand, the performance of the developing countries has been mixed at best. Indeed, for large groups of developing countries, the economic and financial situation remains as difficult as ever. While some developing countries, including the newly industrializing economies of Asia and certain primary commodity producers, have benefited from the favorable growth performance of industrial countries and from the increases in some commodity prices, that certainly has not been the case for oil exporting countries, heavily indebted countries, or many low-income countries in Africa.

The staff projections indicate that in the period ahead, even if major disturbances in the global economy are avoided, economic activity in the industrial countries is expected to slow down. Furthermore, the external position of developing

countries as a group is projected to weaken. This is particularly the case for the heavily indebted and oil exporting countries. Obviously, if the performance of the world economy turns out to be less favorable than is assumed in the baseline scenario, the outcome for developing countries would be even less satisfactory.

The staff identifies two elements of risk in the current trend in the world economy. One is the possibility that, even with the significant decline in the external imbalances among the major industrial countries, those imbalances will remain too large to be accommodated by private capital flows without major disruptions in financial and foreign exchange markets. The other threat is the possible buildup of inflationary pressures, which, sooner or later, would result in a cyclical downturn.

As far as the sustainability of external imbalances is concerned, it is interesting to note that even in the relatively optimistic reference scenario, the U.S. current account deficit will remain of the order of 3 percent of GNP, as the improvement in the period 1987-89 is projected to be again reversed in the following three years--despite the staff's expectation that, by 1989, the United States will have regained most of the market shares it lost earlier in this decade. While it is difficult to judge with certainty whether private capital inflows will continue to support such a large financing requirement in the United States, it is unlikely that it can be supported indefinitely at the present exchange rate and interest rate differentials. As is well known, in 1987 most of the financing of the U.S. current account deficit came from official sources, as private investors were reluctant to add to their portfolios of U.S. securities and other dollar assets. A question that arises in this connection is to what extent off-market official flows from surplus countries can be used to avoid the possibly costly monetary tightening needed to attract private financing. Could such coordinated flows be used to allow more time for the correction of external imbalances to take place? Or could it be argued that the opposite is true, and that off-market financing of the U.S. deficit will retard the fundamental adjustment that is required? The staff may wish to comment on this issue.

The staff's medium-term scenarios illustrate clearly the risks associated with a resurgence of inflationary pressures and the implications of monetary tightening to contain such pressures. In fact, recent developments may lead one to conclude that we are perhaps already at the beginning of a path along the lines of Scenario B. Whether or not the recent round of interest rate increases is justified--and there are indeed some who argue that the fears of inflation are a bit exaggerated--the costs associated with exclusive reliance on monetary policy, especially in the United States, to contain aggregate demand,

are quite obvious. In addition to the possible adverse implications for exchange rates and for external adjustment among major industrial countries, a significant increase in interest rates would have a serious impact on developing countries, particularly those with a heavy debt-servicing burden. While the staff's baseline scenario projects an improvement in the export performance of developing countries which will offset the expected increase in interest costs, a significant increase in interest rates would clearly put substantial pressures on the external positions of developing countries, as exports are also likely to fall with a slowdown in global economic activity.

The obvious conclusion that one draws from the staff's analysis is that the threats facing the world economy today require a broader response that encompasses fiscal adjustment, particularly in the United States, and structural reforms, particularly in Europe. The costs of the substantial dissaving in the United States, both to the U.S. economy and to the world as a whole, are quite clear and do not need to be repeated. Similarly, the process of structural reform in Europe has to strengthen if an adequate level of economic activity and employment is to be achieved without endangering price stability. In this connection, we welcome the staff's study on structural policy issues, which will be circulated after the Annual Meetings. However, we agree with the view that the difficulties associated with constructing structural indicators should not hinder the coverage of, and the emphasis on, structural issues both in the world economic outlook and in individual country reports. In this connection, it would be useful for Article IV consultations with the relevant countries to include discussions of alternative ways of meeting the distributional and social concerns that sometimes motivate distortive policies. For example, on page 46 of the main paper, the staff discusses the question of farm subsidies and indicates that "distortions could be reduced significantly by shifting from production-related price support to income-related farm support." This could also apply to other sectors, and it would be useful for Article IV consultation discussions to give adequate attention to such issues.

Regarding the outlook for developing countries, I share the staff's concern about the medium- and long-term implications of the decline in capital formation which has occurred since the early part of this decade. While it is true that an improved export performance does not in itself guarantee that resources will be used to increase investment, the possibility of a slowdown in global demand, on the one hand, and of higher interest rates, on the other hand, may make it extremely difficult to restore an adequate rate of capital formation. This is especially the case when external savings are hardly available for most developing countries, and it also has a

bearing on the employment outlook in developing countries, many of which already suffer from very high rates of unemployment, with all the social implications which that entails. This is one area to which the staff could have given more attention.

It is clear that the depth of the problems of the low-income countries is such that only a long-term and sustained effort can help them reverse the economic downslide they have experienced over the years. It is encouraging that net lending to the low-income countries is expected to increase by 50 percent in the period 1987-89 relative to the preceding three years; and we welcome the initiatives both inside and outside the Fund to look for ways of assisting those countries in the manner that best suits their special circumstances.

The outlook for the oil exporting countries is obviously dependent on developments in the oil market, and recent price movements have not been very encouraging. Over the past few years, the oil exporting countries have reduced their imports substantially, in response to the decline in oil export revenues. A continuation of the recent trend in the oil market is likely to lead to further fiscal adjustment, particularly in the capital-exporting oil countries, and thus to further reductions in imports from the industrial countries. A downward trend in oil prices would also have serious implications for a number of heavily indebted oil exporters, as well as a significant number of non-oil countries whose foreign exchange earnings from migrant workers and other regional flows are directly influenced by economic developments in the oil countries themselves. Although this is alluded to in the staff paper, the full implications of oil price developments could have been spelled out more clearly.

Mr. Vasudevan made the following statement:

The current staff assessment of the world economy appears to be more optimistic than that presented in the April world economic outlook paper, which, since it was closer to the sharp stock market decline of October 1987, reflected the greater uncertainties and caution of short-term forecasts. On the one hand, the current estimate places the output growth in industrial countries at 3.8 percent for 1988, against only 2.8 percent estimated in April. On the other hand, the current estimate of growth in developing countries for 1988 is lower by 0.1 percentage point than the April estimate of 3.7 percent. Apparently, the buoyancy of growth in industrial countries will not spill over to developing countries in 1988. It appears that the effects of growth will not be visible even in 1989, unless there are policy adjustments in developing countries to improve growth prospects. The relatively dampened growth in developing

countries is attributed to a combination of factors--relatively weak oil prices, weakness in some commodity prices such as those for tropical beverages, firming of interest rates, and a sharp deterioration in inflation performance in a number of countries. The staff assumes that the necessary policy adjustments will take place in 1988-89, with the result that the developing countries' output growth will improve to 4 percent in 1989 from 3.6 percent in 1988. However, the good performance of the industrial countries in 1988 is regarded as transitory in nature, and output growth is expected to moderate in 1989 to a level that is close to the staff's estimate of potential output. This is typical of the pattern that can be observed in the staff's short-term forecasts, although it is not clear how developing countries could improve their output growth in 1989 without adequate growth in final domestic demand in industrial countries.

With regard to fostering stable expansion in industrial countries, the staff has alluded mainly to two concerns--first, the willingness of the financial markets to finance, at the existing interest and exchange rates, the large external imbalances that are in prospect in both the short run and the long run, and second, the possible re-emergence of inflationary pressures. The staff devotes much attention to the latter and goes to great lengths in working out medium-term scenarios with assumptions about different degrees of adjustment in monetary policies. The large external imbalances, however, have been with us for many years, with no prospect of their being eliminated.

The inflation outlook depends largely on price expectations, or, more correctly, on the evolution of policies in industrial countries. The staff's medium-term scenarios, in which the burden of meeting inflation is placed solely on monetary policy, are unrealistic; the fact that there must be a policy mix for that purpose is now generally accepted. As the staff notes, monetary policy would be made more effective by fiscal adjustment and by the appropriate structural policies. If the policy mix is strong enough, the risk of a significant increase in prices would be considerably reduced. However, in the process, if interest rates rise and the U.S. dollar appreciates, the likelihood of gaining external viability in most developing countries in the short run would be greatly impeded. In fact, it could well be argued that the costs of moderate inflation for industrial countries would not be as high as the costs that developing countries would have to bear were interest rates to increase by even a small amount. It is worthwhile to re-examine whether the staff is excessively concerned about inflation, particularly if economic units were to regard the rapid expansion in liquidity since 1985 as reflecting permanent shifts in the demand for money related to

the progressive deregulation of financial markets. In any case, under any one of the scenarios, the external imbalances among the three largest countries would continue to be as large and as unsustainable as before.

With respect to the question of the external payments imbalances of the three largest countries and the financing of those imbalances, the U.S. current account deficit was met largely by official financing in 1987, because of the reluctance of private investors to acquire dollar assets. However, the experience in early 1988 seems to indicate that the financing of the U.S. deficit by private investors is again in evidence. The shift in private investors' perception within a year is attributed by the staff to the small monthly U.S. trade deficits in April and May, the strong performance of the economy, and the *sensitivity of the Federal Reserve to overheating and inflation.*

But will those perceptions last long? Would net private investors consider that the net debtor position of the U.S. would not be sustainable beyond a certain level? What if capacity constraints become severe, and total factor productivity, as well as labor productivity, in the United States shows a continued downward drift? It cannot be said with certainty that private investors' perceptions would not shift again during the course of 1988, given the likelihood that there will be no strong policy actions in the United States in the coming months. Will official financing then come to the rescue once again? Will the other major industrial countries undertake such financing, knowing well that the financing needs would be large?

During the Board's recent discussion of the report for the 1988 Article IV consultation with the United States, it was agreed that strong and quick fiscal action was necessary to improve private sector confidence in the United States, and to reduce the growth of domestic demand. Such action, coupled with actions to raise the level of private savings in the United States, is clearly called for, in the short run as well as over the medium term.

However, so long as fiscal correction in the United States remains neither quick nor adequate, the burden of avoiding the re-emergence of inflation will fall disproportionately on U.S. monetary policy; but it is not clear how successful monetary policy would be in the short run, assuming that it would not have the support of other policies in the medium term.

In the other major industrial countries, the stimulus to domestic demand would have to be accompanied by a restrained monetary policy to ensure that prices and exchange rates do not come under pressure. Also, there is a need for bringing about a

resurgence in investment in Germany, and, in this connection, structural policies could be of help. Stimulus from countries in surplus is essential if recessionary tendencies in the international economy are to be resisted.

The choice of structural policies should be dictated by their ability to improve supply responses and resource allocation and to reduce inflationary pressures. The staff has reported that they are undertaking a major study, which will be circulated after the Annual Meeting. Meanwhile, the issues that might need immediate attention are subsidies and trade barriers, which create considerable market distortions and have important implications for adjustment at the national and international levels. As regards the Fund's role, the present practice of detailing structural policies in Article IV consultation reports should continue. The effects of structural policies on national economies and on the international adjustment process may be analyzed in brief in Article IV consultation reports, but the effects of the structural policies on the process of international adjustment need to be brought into sharper focus in the world economic outlook exercises. However, the OECD also seems to be preoccupied with structural issues, and the Fund could take advantage of the work of the OECD in that respect whenever possible, instead of duplicating its work. Attempting to quantify all sophisticated structural indicators may not be very worthwhile. Judgmental assessments may have to be resorted to for bringing about necessary policy changes.

With regard to reviving growth in developing countries, it is generally acknowledged that early strong adjustment actions, supported by adequate external financing, would bring about external viability and pave the way for future growth. In many capital-importing countries, growth rates are lower than what they were in the 1970s, and lower even than those in the period 1984-86. No doubt, domestic resource mobilization could help to raise the savings rate, and export-oriented investments would bring about external viability. But domestic resource mobilization has limits, imposed by the low-income levels, as well as by the already high savings rates in many countries. Yet, even with adjustments in interest rate, wage, and other macroeconomic policies, growth rates have not been rising in many countries, especially those heavily burdened with the servicing of the large stock of inherited debt. The ability of adjustment policies to bring about conditions for growth and stability is being severely constrained by large debt service payments. Unfortunately for those countries, private lending is on the decline, and the growth of official lending is projected to decelerate. No doubt, debt and debt service ratios have recently declined, but that does not necessarily imply that a trend has been set. The position could worsen if the external environment, including external financing flows, deteriorates.

Prospects for the heavily debt-ridden countries are extremely bleak, unless imaginative debt restructuring takes place, including debt relief. In the absence of such initiatives, and in view of the likely decline in the growth of output in industrial countries in the short term, there will be little evidence of a secular strengthening in the growth performance of developing countries. It is here that the multilateral institutions have an important role to play, in supporting the adjustment policies of developing countries, both through direct financing and the catalysis of other resources.

Concerning the international monetary system, the recent shifts in the key exchange rates hardly reflect a return to a more sustainable exchange rate alignment, since considerable external payments imbalances persist between the major countries. But it is not certain that private market confidence is as firm as one would like it to be, and the possibility of pressures emerging in exchange markets should not be ruled out. We will have an opportunity to discuss the viability of current exchange rates at an informal meeting on exchange rate developments.

Mr. de Groote made the following statement:

I will make three points on policies for stable expansion in the industrial countries.

First, although the staff recognizes the risks of an exclusive reliance on monetary policy, it does not seem to be unsympathetic to some further monetary tightening, combined with fiscal restraint, in order to offset the possibility of excessive demand. I would have preferred to see the staff consider more explicitly the important downside risks such a combination would impose on the business cycle, and would suggest that prospects for an orderly correction of the present imbalances might be better served by a mix of forceful fiscal adjustment combined with policies for stable exchange and interest rates.

Second, the effects of interest rate developments on domestic output prospects cannot be easily dismissed. While the staff ascribes the strong upward revision of its current output estimates to the lagged influence of the large changes in exchange rates and the terms of trade that occurred in 1985-86, I would also suggest giving some consideration to the positive effects on output produced by the coordinated decreases in interest rates that were decided in the aftermath of last year's stock market crisis. Accepting the relevance of those interest rate actions for the present recovery of output would also imply that the general increase in rates now under way might, if

further extended over time, discourage business confidence seriously enough to produce a downward readjustment of output in 1989 much below the current estimates.

Such a downward readjustment would be especially troublesome for the United States, because the next Administration would face the need to announce its budget program under conditions of slower growth and lower-than-expected tax revenues. The downside risks for the business cycle may become even more compelling, to the extent that the present recovery in the United States is supported by an exceptionally vigorous expansion of business investment, which is influenced more than any other demand component by general interest and output expectations.

Third, the international implications of the present U.S. monetary stance have already begun to materialize, as demonstrated by the emergence of upward pressures on the dollar, and by the increase in interest rates that had to be decided in Europe in order to limit an undesirable dollar appreciation. The Bundesbank, especially, deserves credit for its decision to offset exchange rate pressures that might upset the coordination of policies. Not only would additional dollar appreciation damage the U.S. export sector at a moment when major trade alignments are still needed, it would also be an ideal platform from which markets would be likely to impose a strong downward correction later on. Because such a downward correction would further increase the preoccupation with U.S. inflation, interest rates might then have to be increased still further, and the United States would then be confronted with the undesirable combination of a budget deficit still too large to be left unchanged, and a monetary policy stance fully determined by the need to prevent a further dollar depreciation.

In sum, in the scenario for a stable expansion that should be central to the policy options of large industrial countries, growth and adjustment policies clearly continue to support one another. That can now best be achieved by early additional action on the U.S. budget, and by additional efforts to stabilize the exchange markets. Stable exchange rate relationships should have an especially high priority in such a scenario for two reasons: first, because they would increase the willingness of the U.S. trade sector to expand output capacity once the validity of a given exchange rate pattern was formally endorsed, thereby further accelerating the pace at which the current account could be corrected without adding to inflationary pressures; and, second, because stable exchange rate relationships would reassure the markets that the adjustment would be protected against any policy conflict, the most likely outcome of which would be a return to unilateral policy decisions if the conflict was not resolved.

On structural policies and medium-term adjustment, I am especially impressed by the fact that, even with faster demand growth in surplus countries and with additional fiscal restraint in the United States, the staff does not expect that the external imbalances will be eliminated, or even sizably reduced, in the medium term. The reference scenario even expects the U.S. current account deficit to increase again in the medium term, a development that even a sharp contraction of internal demand imposed by fiscal restraint would not be capable of reversing. Clearly, structural measures will have a major role to play in the implementation of orderly adjustment solutions from now on.

The staff's annex on structural policies opens a most interesting discussion in concluding that structural policies have a direct and important impact on the conditions for orderly international adjustment, while adding that efforts to incorporate those policies in the framework of indicators for multilateral coordination will always be frustrated by the difficulty in quantifying structural actions and their effects on macroeconomic variables. I fully share that conclusion, which reminds one to some extent of the difficulty in incorporating formal commitments and targets for the implementation of structural adjustment measures in Fund stand-by arrangements.

Needed structural policies, aimed at the restoration of a satisfactory private savings rate in the United States or at the elimination of market rigidities in Europe, cannot be easily negotiated within the present coordination framework, because they require lengthy and complex preparation, and because their effects on international adjustment cannot be discussed in quantitative terms. An illustration of those difficulties is provided in the papers before us, where the staff's recommendation for structural action in Germany remains almost inevitably of a general nature, without singling out those measures that would have the greatest impact on international adjustment.

Vagueness about structural adjustment actions, in my view, increases the risk that coordination among the largest countries will continue to focus on short-term demand actions, such as a given budget correction in the United States or a given amount of public expenditures in Europe and Japan, thus diverting the attention of both governments and the markets from more fundamental solutions. I found Mr. Dallara's caution against assuring excessively mechanistic causality between the U.S. budget and current account adjustments, which he noted during the Board's discussion of the Article IV consultation with the United States, was most relevant and justified, and Mr. Templeman has presented a similar view.

A better balance between short-term and structural actions to promote international adjustment could be more easily and

lastingly obtained by introducing a greater degree of exchange rate discipline in the system. Not only would such discipline avoid the frequent recurrence of policy negotiations among the largest countries, which will almost inevitably focus on short-term actions; it would also encourage the largest countries to intensify their implementation of structural policies consistent with a high degree of international stability. In this connection, it is worthwhile noting that in the currency zone of the European Monetary System, where this stability is now firmly established, the participants are almost naturally encouraged to assess all their policies, including structural policies, in terms of their impact on external stabilization. An especially revealing case is that of the competitiveness norm in Belgium, a norm establishing limits for wage increases on the basis of the evolution of wages in a number of competitor countries. Such a system, involving wide-ranging structural aspects and a high degree of social consensus, could not have been envisaged if the debate had not constantly referred to the discipline imposed by the currency arrangements of the European Monetary System.

On the need to revive growth in the developing countries, I share most of Mr. Ortiz's concerns about the staff's presentation of the economic outlook for the middle-income debtors. Additional efforts should be invested in expressing the impact of a revival of growth in the developing countries on the orderly solution of the current account imbalances of the industrial countries themselves. It will be easier to obtain official financing to support the debt strategy if the global implications of the debt problem remain in the limelight.

I see little use in systematic comparisons between countries that have run into debt problems and those which have avoided debt problems as a result of their early implementation of adjustment policies. Such a presentation somehow conveys the notion that debt problems are the exclusive result of inappropriate policies. But now that the debt problem is with us, adjustment alone as a solution to that problem will not suffice. Stressing that there is a relationship between the success of adjustment and the ability to borrow is appropriate, but now that so many countries are saddled with excessive debt, the point is that one cannot neglect the severe constraints on the pursuit of orderly adjustment which high indebtedness necessarily produces. In other words, the Fund's policies should more than ever reflect unambiguously the idea that appropriate financing solutions are a precondition for the implementation of sustained, growth-oriented adjustment.

This notion is now clearly reflected in the mechanism for protecting members' adjustment processes against external shortfalls. I especially welcome the section on this mechanism in the current world economic outlook paper, both because it

fully demonstrates the legitimacy of the external contingency mechanisms, even under conditions of generally satisfactory world demand, and because it provides an especially timely reference for discussion with the banks, at the coming Annual Meetings, on how they can support the new mechanism with their own more flexible reimbursement schemes. While the contingency mechanism was initially envisaged as an instrument for protecting prolonged adjustment and financing programs, we should, from now on, also seriously envisage another approach, in which the forceful adoption by creditors of the contingency idea when such programs are lacking will introduce an element of stability in the adjustment, on the basis of which more lasting financing solutions can be obtained more easily later on.

The Fund and the World Bank together have an essential part to play in making sure that the debt relief initiatives now envisaged for the low-income countries produce lasting effects, extending beyond the duration of the initiatives themselves. On page 51 of the main paper, the staff singles out the long-standing weakness of those countries' export performance as the single most important element clouding their medium-term outlook. Due consideration should therefore be given to the establishment of specific programs to ensure that the resources released through debt relief will be utilized for supporting vigorous programs of diversification, aimed at redirecting the output and export structures of the low-income countries from their traditional reliance on primary commodities.

The Fund should stand ready to support such initiatives with comprehensive adjustment with programs under the enhanced structural adjustment facility. However, we should also consider the fact that the adjustment capacity of a number of countries has been eroded in recent years, to the extent that they may not be ready now to adopt comprehensive programs under the enhanced structural adjustment facility. How do we get the Fund involved when such a program cannot be negotiated immediately? Flexible cooperation techniques, based on a consensus on the desirable direction of key economic adjustments, in a kind of shadow program, should then be envisaged, to ensure that the Fund can promote conditions under which its more active, and financial, involvement can be anticipated later on.

Mr. Mawakani made the following statement:

The most recent performance of the world economy has been relatively more favorable than was expected. Strong growth has been registered in industrial countries, where inflation also continued to be under control, movements in the exchange rates of the major currencies remained less volatile, and progress was made in correcting internal and external imbalances. I broadly

agree that the economic coordination process under way among the major industrial countries has certainly contributed to these positive developments.

While that progress should not be ignored, it is however quite clear from the staff's projections in the reference scenario that external imbalances will persist at an unsustainable level in the absence of further policy adaptation in major industrial countries. It is worth mentioning that the projections do not show a significant improvement in the external account imbalances of the three largest industrial countries, which will remain large until 1992. Most disturbing of all is the size of the U.S. current account deficit, which is expected to hover around 3 percent of GNP in the period ahead. I cannot but agree with the staff that an imbalance of that magnitude might not be sustainable indefinitely and, sooner or later, might be conducive to a capital market disruption similar to that which occurred in October 1987.

From the staff's analysis and projections, it also appears that inflation will accelerate in the period ahead, as output in industrial countries approaches capacity limits. I concur with the assessment that, given the current structure of demand in several industrial countries and the present circumstances of the world economy, the risk of an acceleration of world inflation should not be underestimated.

The economic performance of developing countries in 1987, although slightly stronger than anticipated, cannot be considered satisfactory. Indeed, the growth of real GDP declined from 4.2 percent in 1986 to 3.4 percent in 1987, and is not expected to exceed 4 percent in 1989. The deterioration in the terms of trade, as well as the inadequacy of external financing, were the main factors in those developments. The economic activity and growth performance of individual countries in the group of developing countries continued to be uneven, with increasingly unfavorable growth prospects for many of the primary exporters, particularly in Africa. Real GDP in these countries is estimated to have grown by only 2.3 percent in 1987, and is expected to be less than 3 percent in 1989. At these low rates, any improvement in the living standards of the population cannot be expected, and the staff's projections indicate a continued deterioration in real per capita GDP in African countries. This is indeed an alarming situation that needs to be reversed.

Although some improvement occurred in the current account balances of the developing countries in 1987, their external positions remain weak and are not expected to improve in the near future. Regarding the external debt of developing countries, the aggregate indicators seem to point to an improvement

in the debt situation, as the debt ratio declined in 1987 and is expected to do so in 1988 and 1989. But the debt problem is far from being solved; in fact, the financial situation of debtor countries is still precarious, and the debt burden will continue to be a serious constraint on economic growth for these countries, particularly the low-income countries in Africa.

I broadly agree with the staff's assessment and conclusion regarding the question of fostering stable expansion in industrial countries. In particular, I share the view that there are two potential threats to the sustainability of world economic growth: the large external imbalances of some major industrial countries; and the revival of inflation in those countries. All of us have fully recognized the negative impact of the external imbalances of the three major industrial countries on the rest of the world. The staff is certainly correct in saying that the continuing absorption of a substantial share of the world's savings by the United States can be viewed as undesirable because it helps keep real interest rates high, limits the flows of resources to developing countries, and contributes to uncertainties regarding the exchange rate of the world's most important reserve currency. Indeed, the responsibility of the United States in the process of correcting external imbalances, as well as in mitigating the inflationary pressures that seem evident, is greater than that of other countries. I endorse the staff's view that the U.S. authorities should accelerate efforts to achieve their medium-term fiscal objectives and implement an economic policy that could return output growth to a rate that would be sustainable in the medium term. The scenario proposed by the staff in Table IV.6, on page 24 of SM/88/181, which combines a U.S. fiscal contraction with more moderate monetary contraction, should be given due consideration. Of course, other industrial countries share the responsibility for correcting external imbalances, mainly Japan and Germany. In that regard, it appears necessary for those countries to continue implementing a sound demand-management policy aimed at reconciling domestic objectives with the objectives of stabilizing the exchange rates of major currencies and facilitating external adjustment.

Structural reforms are also of paramount importance in maintaining sustained growth without reviving inflation in industrial countries, as they can complement macroeconomic policies.

It has become obvious that the revival of growth in developing countries can be achieved only if a durable solution is found to the problem of the debt burden, which currently absorbs a sizable proportion of domestic financial resources. The staff has provided evidence that the overall ratio of debt to exports fell in 1987 for the first time since 1980. Despite this

apparent improvement, the debt problem remains serious. Indeed, the staff has recognized that the data on the aggregate level of debt conceals substantial differences between individual countries. Some countries have made progress, but many others are "as far away as ever from restoring creditworthiness and reviving the momentum of development." The complexity of solving the debt problem arises from the fact that there is no single solution. Therefore, while we can recognize the merit of strengthening growth-oriented adjustment policies as a condition for revived economic growth and as a means of reducing the debt burden, it is also a fact that, for certain cases, debt write-offs should not be excluded as a solution. In that connection, the countries represented by this chair express the hope that the debt relief plan adopted at the Toronto Summit will soon come into effect.

On the international monetary system, the staff has put forward relevant questions regarding the return to a more sustainable alignment of exchange rates in the context of the current coordination of policies among the major industrial countries. Naturally, we endorse the recent efforts of the Group of Seven to stabilize exchange rates. This process should continue, as it is an essential ingredient in the international adjustment that is under way, and in world growth prospects.

The Fund must continue to play a major role in multilateral surveillance, which should be strengthened, so that developed countries are made more aware of the effects of their policies on the rest of the world.

Mr. Zhang made the following statement:

The world economic outlook paper presents a comprehensive analysis of the current situation and prospects for the world economy. In general, I agree with the staff.

The resilience of economic activity in the industrial countries since late 1987 seems to warrant expectations of sustained economic expansion in the short run. While many factors contributed to the expansion, the lagged effects of the large exchange rate adjustments between 1985 and 1986 played an important role. I found the staff's explanation for that on page 4 of the main paper convincing. Chart 1 on page 2a shows the changes in output and demand growth induced by the exchange rate and other policy adjustments of Japan, Germany, and the United States. Should that pattern of demand and output growth persist, the momentum of the economic expansion will be sustained. However, that prospect is now uncertain, due, among other things, to the recent tightening of monetary policy by the

major industrial countries in response to rising inflationary expectations. This tendency will affect the world economy in the medium term.

An important question is what would be the appropriate policy response--consistent with the medium-term framework--in the event uncertainties about the continuation of the forward momentum become more complex. Several relevant issues need to be studied. First, what is the likelihood of a re-emergence of high inflation rates like those experienced in the mid-1970s? Does that justify the recent tightening of monetary policy by the major industrial countries, given that their external imbalances still exist? Second, how long will the lagged effects of exchange rate adjustments in 1985-86, the decline in interest rates, and the increase in liquidity following last October's stock market reversal, continue to foster the economic growth of the major industrial countries? While prolonged economic expansion, rising commodity prices, and an increase in employment may warrant the fear that inflation will re-emerge, there are some countervailing factors. The sharp increase in oil prices during the mid-1970s was the main contributor to the surge of inflation in the early 1980s; since 1985, oil prices have declined sharply. As shown in Chart 4, the increase in commodity prices has passed its peak, and those prices are now likely to remain stable. Increases in consumer prices and in wages in the major industrial countries have been moderate so far. More importantly, the structure of monetary policy in the key industrial countries, and especially in the United States, has undergone fundamental changes in the past ten years; the monetary authorities' policies have not been as accommodative as they were in the mid-1970s. After a decade of reform, the world's financial markets are more integrated and are more capable of absorbing excess liquidity. In that sense, I believe that it is appropriate to caution against overplaying the re-emergence of inflation. An increase in interest rates, as a result of a tightening of monetary policy, would add to the debt-servicing burden of the many heavily indebted countries, would aggravate the outflow of financial resources from the industrial countries, and would worsen the debt problem.

Large fiscal deficits also create inflationary pressure. Much needs to be done on the fiscal front to ensure that a tightening of monetary policy will help to sustain economic growth, while not inducing inflation or any other side effects. In that respect, I am in general agreement with the staff's policy recommendations. It should be noted that, in addition to fiscal policy, structural policies should be emphasized as well.

With respect to the issue of reviving growth in the developing countries, we are concerned mainly about the low-income

and heavily indebted middle-income countries. These two groups of countries benefited least from the world economic expansion. In addition to their debt problems, the stagnation of their economies aggravated the already serious problems facing them.

The government usually finances a large part of the investments in the low-income countries, because of the underdeveloped nature of their economies and the narrowness of their export base. Hence, the government is the major contributor to these countries' economic growth. The export base of the heavily indebted middle-income countries is more developed. However, because of their huge stock of debt, a large part of export earnings is absorbed by debt servicing. Governments, while sharing the large debt service burden, also bear the major responsibility for the economic development of these countries. As a result, for both the low-income and the heavily indebted middle-income countries, fiscal policies tend to be more expansionary, while their monetary policies are more accommodative.

Adjustment programs aimed at reviving growth in these countries should take fully into account the nature of those problems. I generally agree with the staff that those problems are more structural in nature and, therefore, are important and need to be addressed if economic growth is to be restored. While the need for continuous financial inflows to these countries should always be stressed, there is also room for improvement in Fund-supported programs. Taking into account the realistic needs of a country and maintaining the consistency of various policy recommendations are crucial to a successful program. I would like to stress the importance of summarizing our experiences with Fund-supported programs in that group of countries.

Mr. Zecchini made the following statement:

The papers prepared by the staff for this discussion are well articulated and contain interesting analytical innovations, particularly in the area of structural indicators. However, the economic problems, the policy issues, and the recommendations do not appear to be new, as the considerations of the previous two world economic outlook papers are repeated. That is not the staff's fault, but it is a reflection of some of the constants that can be seen in the economic evolution of the past 18 months, as well as of some gradualism in bringing about improvements in policy implementation.

I will make a few points on the diagnosis of the current problems in the world economy, the policy prescriptions, and the evolution of the international monetary system.

I share the staff's view that the magnitude of the external imbalances of the three major economies and the emergence of signs of inflationary pressures constitute the major threats to the maintenance of satisfactory and sustainable growth over the coming years. One additional element of concern is the fact that the counterpart to the reduction of the U.S. current account deficit is being distributed unevenly, particularly among the external accounts of the European countries. In fact, deficit countries are experiencing a weakening of their current account that is larger, as a ratio to both total trade flows and GDP, than the weakening of the current account of the surplus countries (see page 60 of the OECD Economic Outlook, June 1988). What is disturbing is the fact that that uneven distribution is determined mainly by the different trends in imports, which in turn are driven by differences in domestic demand expansion in Europe. The countries with the highest rate of growth of domestic demand are those with the greatest weakening of their current account. A desirable weakening of domestic demand growth in the United States could exacerbate the deflationary bias in the present pattern of relative demand expansion in Europe, which is likely to affect negatively the global adjustment strategy for both the United States and the developing countries, and will make the process of fiscal consolidation more costly in Europe and throughout the world economy.

I share the staff's view that monetary policy will have to focus on checking potential inflationary tensions. With respect to the results of the staff's simulation exercise, the output effects of monetary tightening may in fact be smaller than has been projected. The reason is that the disinflationary commitments of the monetary authorities of the industrial countries have acquired an increased degree of credibility due to the successful record established in that respect over the last five years. It is questionable whether the parameters of the present model, which is probably estimated on the basis of the behavior of market participants during a long period, can capture the impact of the improved credibility of the monetary authorities' policies. Therefore, the outcome of a new round of monetary tightening, all other things being equal, could be more favorable in terms of output growth. In econometric terms, what is open to question is the stability of the model's parameters, but I recognize that it is very difficult to capture shifts in parameters in a model. The broad validity of the staff's econometric exercise is not under discussion, but the interpretation of the results of the exercise must be qualified.

While we should recognize the leading role of monetary policy, the risks involved in relying exclusively or excessively on the monetary lever should be borne in mind. These risks have been denounced extensively in our recent discussions on the debt strategy, and could be reduced significantly by a substantial

tightening of fiscal policy in the United States. It is also necessary that the process of fiscal consolidation be continued in other major industrial countries, including Italy. Increased public savings will help prevent a crowding out of investments at a time of tightening of monetary conditions, thus sustaining the expansion of productive capacity and fostering noninflationary growth.

I agree that structural improvements in the major industrial economies can make a substantial contribution to growth and the adjustment of external imbalances in the medium term. However, a word of caution is warranted about the misconception that structural measures can be a substitute, to some extent, for the macroeconomic policy measures that are required to reduce the present inflationary pressures. Structural reforms could improve the tradeoff between real output growth and price increases or could lower the cost of disinflation, but, in my opinion, tight control over the monetary aggregates and fiscal consolidation remain the necessary prerequisites for sustained noninflationary growth in the medium term. In fact, there might even be a case in which the expansionary effects of structural reforms on the demand side precede the supply-side effects, thus creating additional pressures on prices. This could be true, for instance, in the case of a broad tax reform that lowered income tax rates. Therefore, great care should be taken in checking the potential inflationary effects of structural reforms by maintaining careful control over demand expansion.

The priority to be attached to individual structural reforms will depend on the particular country's conditions, but, in general, reforms aimed at overcoming major distortions in the labor market and in the formation and allocation of financial savings should receive the highest priority. The priority attached to structural reforms should also take into consideration the international externalities of those reforms. In that respect, international coordination of structural reform policies might be necessary to avoid undesirable shifts of resources between countries that have become increasingly integrated into world markets. It is from that perspective that we support an increasing role for structural issues in the Fund's surveillance activity, as well as in program design. The development of the structural indicators presented in Annex III should be pursued further, but, as a matter of efficiency in resource allocation, the Fund's comparative advantage lies in analyzing structural issues pertaining to the trade, fiscal and financial areas. The Fund should rely on the OECD for analysis of issues related to markets for labor, service inputs, and goods. The monitoring of progress in structural reform should continue in the context of Article IV consultation reports.

With respect to the evolution of international monetary relationships, the recent rise of the dollar, to a level that is not in keeping with the need for a smooth adjustment of imbalances in the balance of payments of the major countries, should be kept under careful scrutiny. The relative strength of the dollar affords some breathing space to those monetary authorities who were prevented earlier from maintaining closer control over domestic monetary expansion because of the need to support the dollar through exchange market intervention. However, that breathing space does not eliminate or reduce the problem of the impact that a gradual monetary tightening will have on interest rate levels and on the expectation of movements in interest rate differentials between the reserve currency countries. Changes in expectations about movements in interest rate differentials is more useful as an explanation of the recent use of the dollar than is the actual change in interest rates that has occurred most recently. In order to avoid further instability in major exchange rate relationships, more effective coordination of interest rate policy between reserve currency centers is essential, as the experience of the European Monetary System has shown. This has as a corollary the need for some degree of coordination of fiscal policy stances.

Mr. Salehkhou stated that he wished to join other Directors in acknowledging the improvement in the quality of the world economic outlook papers. He had been particularly pleased to note their greater clarity and the much-needed emphasis on the discussion of the structural adjustments and reforms in the major economies, which was long overdue and was clearly in line with the recommendations of the Interim Committee and the Executive Board.

It was heartening to note that the performance of the global economy had turned out better than expected, especially in view of the stock market reversal of October 1987, Mr. Salehkhou continued. That in itself, however, could be a cause for concern, as the major participants might become complacent about the present situation, which remained vulnerable. That perspective had not perhaps been adequately emphasized in the staff paper. Also, the projections appeared to be somewhat overoptimistic, given the underlying assumptions. Although the current economic situation appeared on the surface to be better than had been expected six months ago, the consensus was that a number of persistent problems continued to haunt the world economic environment, reflecting continued major uncertainties. Inflation was re-emerging in several countries, and the external imbalances between the major economies remained very large and were being adjusted only slowly in nominal terms. The question arose as to whether the leading industrial countries were willing and/or able to reduce those imbalances, address decisively the much-needed structural reforms, and stabilize exchange and interest rates. The general inadequacy of the adjustment policies of industrial countries in reducing the existing imbalances, and thus helping to alleviate the global

uncertainties, was exacerbated by the fact that the principal reserve currency country had become the world's largest debtor, with implications for the international monetary system.

Table 6 of the main paper showed clearly that payments surpluses and deficits, especially among the three largest economies, were neither desirable nor sustainable, Mr. Salehkhou noted. The willingness of private investors to continue financing large deficits was highly questionable and a potential threat to the current economic expansion. That factor, together with the fear of a revival of inflation and the delayed response of the authorities to it, constituted the two major threats to the durability of the current expansion. However, Mr. Ortiz was justified in adding to those the problem of the debt overhang. He believed that the staff had reconfirmed his position, at the previous review of the world economic outlook, that "the three-pronged problems of needed structural adjustment in the major economies, the crisis-ridden international monetary system, and external debt" required urgent attention.

A scenario of market disturbances and exchange rate variations would project a much bleaker, yet more realistic, picture of the world economy in the medium term, Mr. Salehkhou continued. The result of a depreciating U.S. dollar would clearly be a tighter monetary policy with increased interest rates. A recession would result, which would worsen the debt situation and force some debtors to impose a moratorium on debt service obligations. The impact on market confidence of the uncertainties arising from such a situation was not difficult to imagine. After all, the loss of confidence in the U.S. dollar by foreign investors had been instrumental in the withdrawal of foreign funds from the U.S. bond market in mid-1987, which in turn shifted the burden of financing the U.S. current account deficit entirely to the central banks and other public financial institutions.

The U.S. current account deficit had been clearly perceived by the market at that time as being unsustainable, Mr. Salehkhou recalled. The problem had been aggravated by the failure of the industrial countries to deal decisively with their mounting trade imbalances. The prospects for cooperation in monetary and exchange rate management by the G-7 countries were consequently seen as poor, a problem that was aggravated by the debate between the United States and Germany over economic policies. Those events ultimately led to the stock market reversal of October 1987, which should have served as a warning to the major participants to accord greater priority to the global, and not merely the industrial countries', economic situation. As one observer had put it, the October crash was a first-time financial heart attack. One could not feel too sorry for the fellow who had a mild heart attack, ignored it, went back to smoking and drinking, and then got hit with the real thing.

The growth performance in the developing countries, in contrast to that in industrial countries, was projected to strengthen only moderately, and would continue to vary considerably between countries, Mr. Salehkhou

remarked, with the heavily indebted and fuel-exporting countries experiencing the lowest growth rates. However, the firming of interest rates had increased debt-servicing costs, which thus offset the relative gains from moderately higher export earnings. Despite a relative--but much heralded--decline in the aggregate ratios of debt to exports, the total debt outstanding of the developing countries had risen to $1,217 billion by the end of 1987. As the staff had observed, the position of countries with a history of debt difficulties remained significantly worse than in the period before the onset of the debt crisis, and the growth prospects of those countries remained seriously constrained and vulnerable to adverse external developments.

In the meantime, Mr. Salehkhou went on, real oil prices had declined significantly, and, based on the staff's assumption, would remain unchanged over the balance of 1988 and 1989. Economic activities, not only in the fuel-exporting countries, but also in those countries that relied on fuel exporters as a source of export revenue and workers' remittances, would thus continue to be depressed. The already difficult economic situation of the fuel-exporting countries, attributable to the weakness of oil markets, would be made yet more difficult by the need to absorb significant increases in import prices and, in some cases, rising debt service costs.

With few exceptions, Mr. Salehkhou continued, growth prospects for many of the primary product exporting countries in Africa were less favorable than had been initially anticipated, because of the adverse terms of trade and those countries' narrow export bases. Many countries in sub-Saharan Africa had experienced a decline in the purchasing power of their export earnings of almost 18 percent over the preceding three years, in addition to external constraints. Weak growth was projected for many of the primary product exporting nations in the Western Hemisphere as well.

Despite the relative increase in commodity prices, many primary producing countries were registering terms of trade losses, especially as the prices of a number of products of particular importance for the developing countries had declined, Mr. Salehkhou said. It could be seen that the primary beneficiaries of any spillover effect of the more favorable economic performance of the industrial countries were those countries which exported manufactured goods, most notably the newly industrializing economies of Asia. Those countries were classified with the developing countries more for on the basis of analytical convenience than of the application of objective criteria.

The persistence of large external imbalances was one of the primary sources of uncertainty that prevailed not only in the industrial countries, but also in the world at large, Mr. Salehkhou remarked. Given the lack of effective or adequate policy coordination to correct those imbalances, private investors might understandably become reluctant to continue financing them themselves, which could lead in turn to market disruptions. The underlying causes of the imbalances would first need to be addressed

before contemplating changes in the implementation of macroeconomic policies, so as to reduce the risk to those policies. Some of those underlying causes were the instability of exchange rates and interest rates; the recurrence of unstable foreign exchange markets; the excessive stress on the current international monetary system, and the implications for the system of having the principal reserve currency country as also the world's largest debtor; the lack of significant progress in structural reforms; growing trade restrictions and rising protectionism; and last, but certainly not least, the huge debt overhang of the developing countries, which, in his view, continued to be the most pressing issue facing the international financial community.

A timely response in both industrial and developing countries to signals of an upturn in inflation was clearly preferable to a delayed response, Mr. Salehkhou continued. The staff had noted that among those warning signals were the strong increases in non-oil commodity prices. It was curious, however, that even according to the staff's own estimates for 1985, the increase in non-oil primary commodity prices accounted for only 5 percent--9 percent including oil--of the total increase in prices and thus only a small share of the value of final output. The staff further contended that there was an historical tendency for turning points in commodity price inflation to signal turning points in general price developments. He did not understand how the effects of increases in non-oil commodity prices, bearing as they did such an insignificant share of the total increase in prices, could have such a significant effect on overall inflation. Chart 4 in the main paper clearly demonstrated the irrelevance of using commodity prices as a credible indicator of inflation in industrial countries. In his view, the addition of commodity prices to the other indicators of inflation, which had been welcomed in the Toronto Economic Declaration as part of the continuing progress being made in coordination--which would contribute to further improving the functioning of the international monetary system--was perhaps an indication of the lack of seriousness of the major players toward that coordination.

There was a growing recognition that the problems in the major economies needed to be addressed through major structural adjustment, Mr. Salehkhou remarked, and he was pleased to note that a part of the current world economic outlook paper had been devoted to that issue. He also looked forward to the staff's major study of structural policy issues, which was to be circulated to the Executive Directors after the Annual Meetings. He hoped that, in developing indicators of structural policies and performance, the staff would give due consideration to the problems, capacities, and adjustment needs of individual countries, and that attention would be focused primarily on those rigidities with the greatest and widest global implications, such as restrictions on trade and protectionism.

He concurred with the staff that, as an integral part of the overall policy strategy of the industrial countries, structural reforms should focus on the eradication of rigidities in labor markets, capital markets, the markets for goods and services, tax systems, and trade restrictions,

Mr. Salehkhou continued. Such a focus would open the way for faster output growth in the short run, would facilitate the efficient allocation of resources required by the adjustment process, help to reduce levels of unemployment, and make the battle against inflationary pressures ultimately easier to win.

As had been discussed in the main paper, Mr. Salehkhou went on, structural reforms, particularly with regard to trade restrictions, would make a major contribution to international adjustment, notwithstanding the difficulties that would be experienced in that regard, particularly with respect to time lags and the unavailability of much of the data that would be necessary, as had been identified in Annex III. The seven largest Fund members had recognized the importance of structural reforms as being complementary to their macroeconomic policies. They also served as the basis for more robust economic growth. However, it was curious that the G-7 countries specifically undertook in the Toronto Economic Declaration to collectively review their progress in structural reforms and to decide on specific priorities for each of the members, and that the Fund had not been mentioned at all in that respect. The G-7 countries also welcomed in that declaration the further development of the OECD's surveillance of structural reforms and the increased emphasis on structural adjustment. Accordingly, he joined the staff in wondering how the Fund could play an effective role in monitoring structural policies and fostering structural changes. Obviously, the OECD clearly took the major responsibility for structural adjustment, even though the Fund was accorded a minor, and perhaps only ceremonial, role, as evidenced by what was generally included in its Article IV consultation discussions and the world economic outlook exercise.

It appeared that the revival of growth in developing countries depended chiefly on a solution of the debt problem, Mr. Salehkhou observed. While there was no doubt that, in general, the debt burden had greatly influenced the capacity of those countries to adopt the policies that were needed to address their economic difficulties, it was still necessary to identify the root cause of the debt burden and the solutions that could be applied to it.

Of the three-pronged strategy that had been followed so far, Mr. Salehkhou went on, namely, improved domestic policies in the indebted countries, adequate flows of external financing, and the maintenance of a favorable external environment, only the first element had actually materialized. The position of his chair regarding the necessity of a favorable international economic environment as a prerequisite for growth in developing countries had been sufficiently elaborated on previous occasions. The revival of growth in developing countries remained largely dependent upon the short- and medium-term economic prospects and policies in the industrial countries. The policies of the industrial countries, however, had not been addressed with the same strident and heavy-handed emphasis which had been accorded the policies of the developing countries. The solution of the debt problem was of overriding concern to all countries, industrial and developing countries alike. His chair had suggested

in the past that part of the solution to the debt problem would be the creation of international mutual funds and the establishment of a convention on capital flight. The international community would pay a heavy price if the debt issue was ignored, for ignoring it would not make it disappear. His chair had also proposed that the staff study the linkages that clearly existed between the debt problem and the problems of drug trafficking, tax evasion, underground economic activities, money laundering, and capital flight. Those problems involved both debtors and creditors. In short, all the members of the world community were involved in the debt problem together, and, as one noted writer had stated, everyone was cruising on the Titanic, even though some were traveling first class.

The recurrent unstable conditions in foreign exchange markets and the continued instability of exchange and interest rates simply reflected the inadequacy of policy coordination, Mr. Salehkhou concluded. The international monetary system continued to be constrained by the conflicts between the domestic and external objectives of the industrial countries, particularly of the major currency countries. The key elements of the economic policy strategy of the major industrial countries--monetary policy geared toward reasonable price stability, fiscal policy aimed at curbing the growth of government spending while reducing fiscal deficits, and microeconomic measures to strengthen the working of markets and improve resource allocation--had not been firmly implemented, to say the least. He fully shared the staff's conclusion that unless monetary policy in the major currency countries was complemented by active fiscal measures, success would be shortlived and unsustainable. Even if those policies were to be successfully implemented, they would be consistent only with the policy intentions of the industrial countries as set forth in the communiqués of the G-7 countries, and would hardly be compatible with the spirit of international cooperation. Disregard for the needs of the developing countries persisted, regrettably, despite studies that had shown that global economic interdependence had already arrived and that policy coordination and cooperation in all areas of economic activity were urgently needed. Accordingly, he remained skeptical about the possibilities for international monetary cooperation, until it could be shown that the attitudes of the industrial countries had changed, and until a more cooperative spirit was reflected in the implementation and coordination of economic policy.

Mr. Demaestri made the following statement:

> My authorities welcome the positive evolution of general economic conditions in the world since our last review. Output and trade have been stronger than was expected after the stock market reversal of last October. At the same time, my authorities regret the fact that progress has been uneven, and that a large number of economies are not sharing in the more positive performance of the world economy.
>
> We are worried about the uncertainties related to inflationary tendencies in industrial countries and the negative

effects of those uncertainties on the economies of developing countries. As the staff has indicated, it is difficult to know whether the rapid expansion of liquidity since 1985 poses any inflation risks. If the expansion of the money supply reflected shifts in the demand for money related to the deregulation of financial markets, the risks of inflation would be low. If, however, the increase in the demand for money was the consequence of expectations of lower inflation, a reversal of those expectations could bring about changes in the velocity of money circulation, and could induce price increases.

Other indicators related to inflation are also unclear. Even though commodity prices recovered by 17 percent in 1988 in comparison with 1987, in many cases they are depressed in real terms. At the same time, there are obvious explanations for some increases in commodity prices, unrelated to inflation, and indicating instead the existence of changes in relative prices. Thus, the evolution of commodity prices does not convince us of the imminent dangers of inflation.

Nevertheless, it is true that the evolution of unemployment and of capacity utilization--mainly in the United States and other large economies--indicates that caution is needed. The economic authorities in industrial countries must be prudent in monetary management, while avoiding generating inflationary expectations that could have adverse effects on the demand for money.

We welcome the information on the large adjustment of the trade imbalances among the major economies. The expansion of the volume of U.S. exports is especially noteworthy. These factors are having an important impact on the imbalances in the current accounts of the major economies, which are in the process of being reduced by approximately 0.8-0.9 percentage points between 1987 and 1989. That is still an insufficient reduction, however, as the staff clearly explained. The remaining current account deficit in the United States causes the accumulation of external indebtedness, and it is not clear whether it will be financed by the markets. The staff's analysis of that issue in the April 1988 world economic outlook paper clarifies and highlights the serious risk imposed by the U.S. deficit for the U.S. economy and the world economy. Prudence requires that renewed efforts be made to correct it. As indicated in previous analyses for the world economic outlook papers, the most efficient tool would be the reduction of the U.S. fiscal deficit. That is even more relevant today, since the U.S. dollar has appreciated, apparently in reaction to the tightening of monetary policy. The appreciation of the dollar will slow the adjustment of the external imbalances of the U.S. economy. Restraint on fiscal expenditures in the United States is thus urgent, and we fully agree with the thrust of the

staff's recommendations in that regard. The staff emphasizes that, without a serious effort to reduce the U.S. fiscal deficit, the control of any potential inflationary pressures becomes more difficult, and, even if the control proves to be successful, there will be negative consequences on the adjustment that is needed in the U.S. external imbalances.

We note that the staff did not analyze the effects of concrete solutions to the problem faced by the developing countries, above all by the highly indebted middle-income countries. In our view, the staff restated what has been its diagnosis of the situation for the past few years. Projections based on the present situation of those countries and on the availability of mechanisms to manage the situation are not encouraging. Enhancement of the creditworthiness of many countries will be very limited in the next few years. The implementation of schemes that supplement a country's efforts to increase trade surpluses, reduce indebtedness, and restore confidence in its ability to service new debt on commercial terms is therefore called for. Schemes to capture market discounts, and mechanisms to accord senior status to new loans, appear to be of great importance. In practice, however, those schemes and mechanisms are subject to the opposition of creditors, a lack of resources, and inefficient institutional arrangements, which may prevent them from playing a relevant role. We hope that a renewed analysis of the debt problem, in connection with future discussions of the world economic outlook, will inspire practical work to enhance the role of such schemes and mechanisms, which appear to be so important.

The Executive Directors agreed to resume their discussion of the world economic outlook on September 9, 1988.

APPROVED: March 16, 1989

LEO VAN HOUTVEN
Secretary