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October 7, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Report on the 1987 Annual Meeting

The Board of Governors held its 1987 Annual Meeting in Washington, D.C., from September 29 to October 1. The Annual Meeting was preceded by meetings of the Interim Committee and the Development Committee.

The Interim Committee met on September 27-28, 1987 with Mr. H. Onno Ruding as Chairman. The press communiqué of the Interim Committee was circulated as Fund Press Release No. 87/28 (Attachment I). On September 29, 1987, the Board of Governors heard a report by Mr. Ruding, which has been circulated as Joint Press Release No. 20. The Committee agreed to hold its next meeting in Washington, D.C., on April 14, 1988.

The Development Committee met on September 28, 1987, with Mr. B. T. G. Chidzero as Chairman, and issued a press communiqué (Attachment II). The Board of Governors heard a report by Mr. Chidzero on September 30, 1987, which has been issued as Joint Press Release No. 38. The Chairman also presented a report by the Committee to the Board of Governors on the work of the Committee during the period July 1986-June 1987, in compliance with Section 5(i) of the Fund Board of Governors Resolution No. 29-9, adopted October 2, 1974; this report has been circulated as a Joint Annual Meetings document (Fund Document No. 5). The Development Committee agreed to meet again in Washington, D.C., on April 15, 1988. The concluding remarks of the Chairman will be circulated to the Committee of the Whole for the Development Committee as EB/CW/DC/87/7.

Board of Governors

The Board of Governors adopted one Resolution:

Resolution No. 42-3 - Financial Statements, Report on Audit,  
and Administrative Budget.

The Board of Governors also decided on the following matters:

1. Officers 1987/88 1/

Chairman	-	Sweden
Vice-Chairmen	-	Italy and Pakistan

2. Joint Procedures Committee 1987/88

Austria	Honduras	Saudi Arabia
Burkina Faso	Italy	Seychelles
Brazil	Japan	Sweden
Central African Republic	People's Republic of	United Kingdom
China	Mozambique	United States
Fiji	Oman	Uruguay
France	Pakistan	
Federal Republic of	Philippines	
Germany	St. Lucia	

Texts of the Resolution, reports of the Joint Procedures Committee and Development Committee, and speeches of the Governors will be published in the Summary Proceedings of the 1987 Annual Meeting.

Att: (2)

Other Distribution:  
Department Heads

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1/ The Chairman and Vice-Chairmen of the Board of Governors hold the same offices in the Joint Procedures Committee; the Governor for Austria will be the Reporting Member of that Committee.

# INTERNATIONAL MONETARY FUND

ATTACHMENT I

PRESS RELEASE NO. 87/28

FOR IMMEDIATE RELEASE  
September 28, 1987

Communiqué of the Interim Committee  
of the Board of Governors of the  
International Monetary Fund

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its twenty-ninth meeting in Washington, D.C. on September 27-28, 1987 under the chairmanship of Mr. H. Onno Ruding, Minister of Finance of the Netherlands. Mr. Michel Camdessus, Managing Director of the International Monetary Fund, participated in the meeting, which was also attended by observers from a number of international and regional organizations and from Switzerland.

2. In their discussion of the world economic outlook, Committee members noted certain positive features in the current situation. The present economic upswing is about to complete its fifth year, there are few signs of cyclical strain, inflation has remained moderate, progress has been made in reducing fiscal and payments imbalances in real terms among the large industrial countries, and economic growth in non-fuel exporting developing countries has picked up. Economic performance nevertheless is falling short of expectations in a number of other respects, with unemployment still high in many industrial countries. The persistence of large current account imbalances in some of these countries is a matter of concern. Also, commodity prices, though having recovered somewhat of late, remain historically low in real terms; the debt situation of the heavily indebted middle-income developing countries remains difficult; and the plight of the low-income countries, especially those with declining per capita incomes, continues to give cause for deep concern.

In dealing with these problems, the importance of a continued coordinated, cooperative approach was stressed. The improved economic and monetary cooperation between the major industrial countries was welcomed. The resolution of debt difficulties remains crucially dependent on the combination of sustained growth-oriented adjustment in debtor countries, access by these countries to external financing, and policies in industrial countries that will secure stable world financial conditions and open and growing markets. The Fund has a major responsibility through its surveillance function to foster this combination of mutually reinforcing policies.

Committee members welcomed the recent reduction in the U.S. fiscal deficit. This progress should be carried further in 1988 and beyond to facilitate external adjustment without harming capital formation. In this context, they were pleased with the decision by the President of the

United States to sign legislation that carries this process further in 1988. It is important, at the same time, that the growth of domestic demand exceed that of GNP in countries with strong external surplus positions, price stability, and government deficits that are not too large. They also stressed that some newly industrialized economies should play a greater role in the global adjustment process. In addition, while Committee members acknowledged efforts made by a number of developing countries, they urged those developing countries that need to initiate or continue adjustment to intensify efforts to achieve and maintain domestic economic stability; to mobilize additional domestic savings for investment; to improve the efficiency of resource use; and to pursue outward-oriented growth strategies. Committee members stressed the importance of ensuring that appropriate flows of financing from private creditors, industrial countries, and multilateral financial institutions are available. The Committee took note of the adverse impact which increases in real interest rates have on the economies of heavily indebted countries.

3. In reviewing the external environment, Committee members expressed concern over recent trends toward the intensification of trade restrictions and export subsidies. They remarked that such measures create uncertainties, interfere with efficient resource allocation, reduce living standards, hamper efficient adjustment, hinder the resolution of the debt situation, and ultimately worsen employment prospects internationally. They also invite retaliation. The Committee noted that macroeconomic imbalances have both aggravated demands for protection and complicated the removal of the structural rigidities that often are at the root of protectionist pressures. The Committee emphasized that macroeconomic imbalances should not and cannot effectively be tackled through trade restrictions; instead, it stressed that the correction of the factors responsible for these imbalances would promote a climate conducive to the strengthening of an open multilateral trade system and to an improvement in the general level of welfare. The Fund should, in its own operations, continue to do its utmost to support the GATT. The Committee reiterated the importance of early results in the ongoing Uruguay Round in order to make decisive progress in trade liberalization, including services and agricultural products.

4. The Committee welcomed the more extended use of indicators in the context of surveillance and the recent world economic outlook exercise. Committee members generally found the medium-term focus of the analysis and the use of alternative medium-term scenarios, involving key indicators, to be helpful in highlighting the international interaction of economic policies and developments. They encouraged the Executive Board to pursue its work in this area, in the context of both the world economic outlook exercise and Article IV consultations, and to continue exploring the development of criteria that would be helpful in judging the sustainability and desirability of the evolution of a limited set of key economic

variables. The Committee noted the importance of stable exchange market conditions and welcomed the progress made since the Louvre accord.

5. Committee members, taking stock of the uneven adjustment experience of many indebted countries and the uncertainties in the current international economic environment, agreed that a satisfactory resolution of the debt problem is likely to take longer than was expected earlier despite the significant progress that has been made in a number of areas.

Members emphasized the importance of continuing the case-by-case approach to debt problems, and noted that this is the only way in which adjustment programs and financing flows can be tailored to individual country circumstances. While noting the support that would be provided by an improved international economic and trade environment, they stressed the overriding need for heavily indebted countries to pursue policies aimed at restoring macroeconomic balance and domestic confidence and enhancing growth prospects so as to strengthen creditworthiness, induce a reflow of private capital, and ease a return to normal debtor-creditor relations. They also remarked that unilateral initiatives carry heavy risks for all parties.

Members reaffirmed the central role that the Fund had to continue to play in helping indebted countries develop appropriate growth-oriented adjustment strategies and in mobilizing finance. The need for continued close cooperation between the Fund and the Bank, especially in their structural adjustment lending, was also stressed. The increase in lending from multilateral development banks was seen as an encouraging development, as was the more open stance of export credit agencies for countries implementing sound economic policies.

Members welcomed the greater diversification in recently negotiated financing arrangements between creditors and debtors. The form and terms of such financing in turn need to reflect the economic situation and prospects of individual countries, with a view to supporting both normalization of their payments position and a return to more satisfactory rates of economic growth. The Committee considered that a further broadening of the range of mutually agreed market-oriented options can be of benefit in securing timely agreement on financing packages and rebuilding debtor-creditor relations. Of particular note was the introduction of various forms of new financial instruments and securities and of formulae that do not add further to the stock of debt. The Committee, however, expressed renewed concern about the apparent slowness in the recognition of strengthened creditworthiness following upon implementation of sound adjustment policies in certain heavily indebted countries--particularly some of the smaller middle-income countries. It stressed that delays in the provision of adequate commercial bank financing could jeopardize the timely implementation of these policies.

In view of the critical situation facing many low-income countries, the Committee noted the growing international recognition that exceptional assistance was needed and, in this context, it noted with satisfaction the longer grace and repayment periods extended in recent Paris Club reschedulings to some of these countries that are undertaking adjustment efforts. It also noted that the possibility of applying lower interest rates to existing official debts for the poorest countries was under consideration. It welcomed the conversion of official debt into grants, and measures with similar effects, by certain creditor countries for the poorest countries, and encouraged other official creditors to follow that example. It also encouraged private creditors to continue their efforts to find realistic responses to the debt-servicing difficulties and efforts at adjustment of these countries. The Committee also noted with satisfaction the increased emphasis on support for policy reforms by bilateral and multilateral donors.

6. The Committee noted that the Fund's structural adjustment facility (SAF), and the policy framework papers developed jointly with the World Bank in conjunction with the SAF, have assisted the process of designing and monitoring implementation of growth-oriented programs in low-income countries. Members reiterated their view that sustainable growth in these countries can be attained only through comprehensive programs of macro-economic and structural reform, and that such programs can be implemented successfully only if accompanied by adequate financing and improving world economic conditions.

The Committee recalled that it had expressed the hope at its last meeting that arrangements under the SAF would attract additional financial support. In this context, the Committee strongly endorsed the initiative of the Managing Director for a substantial increase in the resources available for lending in association with programs supported by the SAF, noting the complementarity between this initiative and those already taken or under consideration elsewhere in the international community, particularly in the World Bank group. The Committee welcomed the progress achieved thus far in exploring arrangements suitable to mobilize resources on the scale envisaged, consistent with the monetary character of the Fund. The Committee asked the Managing Director and the Executive Board to proceed as quickly as possible with further consultations with potential contributors, in order to conclude these discussions within this year.

7. The Committee noted that the Committee of the Whole on the Ninth General Review of Quotas has begun its work by considering preliminary quota calculations and reviewing issues bearing on the size of the Fund. The Committee urged Executive Directors to pursue their work on the Ninth General Review of Quotas so as to be in a position to make appropriate recommendations in due course.

8. The Committee discussed the Fund's policy on enlarged access and the limits on access to the Fund's resources in 1988. It reaffirmed the temporary character of the enlarged access policy and noted that this policy and the limits on access under it are to be reviewed before the end of 1987.

Noting the difficult external conditions facing many member countries in 1987 and the prospect of continuing sizable payments imbalances in 1988, the Committee agreed to continue the enlarged access policy and to retain the present access limits under that policy in 1988. It also noted that the Executive Board has concluded, in a recent review, that the Fund's liquidity position remains satisfactory and is not an obstacle to the maintenance of these limits.

In connection with its review of access limits under the Fund's special facilities, the Committee noted that the Executive Board is continuing its review of the compensatory financing facility; it encouraged the Executive Board to complete this review before the next meeting of the Committee and agreed that, for the time being, the limits on access under special facilities should be maintained.

The Committee requested the Executive Board to complete, before the end of this year, the necessary action in order to implement the agreement reached in the Committee.

9. The Committee heard a report from the Managing Director on the question of a resumption of SDR allocations. Most Committee members reiterated the view that there is a long-term global need to supplement existing reserve assets and that many countries have a need for reserve supplementation. They stressed the costs to members and the risks to the efficient functioning of the international monetary system of building reserve holdings through borrowing on international credit markets or through current account surpluses. Some other members of the Committee, however, continued to believe that the condition for an SDR allocation, i.e., the existence of a long-term global need, had not been demonstrated. The Committee asked the Executive Board to continue its examination of the question of allocation of SDRs and welcomed the Board's intention to continue its examination of the functioning of the SDR with a view to enhancing its attractiveness as a reserve asset.

10. The Committee welcomed the decision by the Executive Board to carry out a comprehensive examination of adjustment programs and of supporting Fund arrangements in the context of growth-oriented strategies. Such an examination will also provide an opportunity to consider whether the Fund's policies regarding conditionality need to be re-examined in light of changes in the conditions facing member countries since the last comprehensive review in 1978-79, and in light of the increased emphasis

being placed on growth-oriented adjustment. An essential aspect of this examination will be to assess the role of the Fund in meeting member countries' balance of payments needs, both from its own resources and through the mobilization of other sources of finance. It was stressed in this connection that the cooperative nature of the Fund and the need to preserve the revolving character of its resources require that members continue to give the highest priority to fulfilling their financial and other obligations to the institution.

The Committee welcomed the recent report of the Group of Twenty-Four on the role of the Fund in adjustment with growth, which complements earlier reports by both the Group of Ten and the Group of Twenty-Four. It noted that the Executive Board has begun its examination of the analyses and recommendations contained in the reports and requested it to report on the status of its work for the consideration of the Committee at its next meeting.

11. The Committee agreed to hold its next meeting in Washington, D.C. on April 14, 1988.

INTERIM COMMITTEE ATTENDANCE

September 27-28, 1987

Chairman

H. O. Ruding, Minister of Finance, Netherlands

Managing Director

Michel Camdessus

Members or Alternates

Mohammad ABALKHAIL, Minister of Finance and National Economy,  
Saudi Arabia  
Abdul Malik AL HAMAR, Governor, United Arab Emirates Central Bank  
Giuliano AMATO, Deputy Prime Minister and Minister of  
the Treasury, Italy  
Hernán ANZOLA, President, Banco Central de Venezuela  
James A. BAKER III, Secretary of the Treasury, United States  
Edouard BALLADUR, Minister of Economy, Finance and  
Privatization, France  
John G. BESTMAN, Minister of Finance, Liberia  
Luiz Carlos BRESSER PEREIRA, Minister of Finance, Brazil  
Ms. QIU Qing, Deputy Governor, People's Bank of China  
(Alternate for Ms. CHEN Muhua, State Councillor,  
Governor of the People's Bank of China)  
Mark EYSKENS, Minister of Finance, Belgium  
Kjell-Olof FELDT, Minister of Finance, Sweden  
B.W. FRASER, Secretary to the Treasury, Department of the  
Treasury, Australia  
(Alternate for Paul J. Keating, Treasurer, Australia)  
Nigel LAWSON, Chancellor of the Exchequer, United Kingdom  
Kiichi MIYAZAWA, Minister of Finance, Japan  
Bader-Eddine NOUIOUA, Governor, Banque Centrale d'Algérie  
PAY PAY wa Syakassighe, Governor, Banque du Zaïre  
Arifin M. SIREGAR, Governor, Bank Indonesia  
(Alternate for Radius Prawiro, Minister of Finance, Indonesia)  
W. F. DUISENBERG, President, De Nederlandsche Bank N.V.  
(Alternate for H. O. Ruding, Minister of Finance, Netherlands)  
Juan Vital SOURROUILLE, Minister of Economy, Argentina  
Gerhard STOLTENBERG, Federal Minister of Finance, Germany  
Narayan Datt TIWARI, Minister of Finance, India  
Michael H. WILSON, Minister of Finance, Canada

Observers

B. T. G. Chidzero, Chairman, Development Committee  
Barber B. Conable, President, World Bank

Kenneth K.S. Dadzie, Secretary-General, UNCTAD  
Arthur Dunkel, Director General, GATT  
Alexandre Lamfalussy, General Manager, BIS  
Pierre Languetin, Chairman of the Governing Board,  
Swiss National Bank  
Abel Matutes, Commissioner for Credit, Investments, and  
Financial Instruments, CEC  
Goran Ohlin, Assistant Secretary-General, Office for  
Development Research and Analysis, Department of  
International Economic and Social Affairs, UN  
Jean-Claude Paye, Secretary-General, OECD



# DEVELOPMENT COMMITTEE

JOINT MINISTERIAL COMMITTEE  
OF THE  
BOARDS OF GOVERNORS OF THE BANK AND THE FUND  
ON THE  
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

1818 H Street, N.W., Washington, D.C. 20433

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September 28, 1987

## PRESS COMMUNIQUE

1. The Development Committee met in Washington, D.C. on September 28, 1987, under the chairmanship of The Hon. B.T.G. Chidzero, Minister of Finance, Economic Planning and Development of Zimbabwe. 1/

2. The main focus of the Committee's attention was on the following three issues:

- o Proposals for action for low-income countries facing exceptional difficulties, especially the seriously indebted countries in Sub-Saharan Africa;
- o Growth-oriented programs in the heavily indebted middle-income countries;
- o The World Bank's role and its resource requirements.

3. The Committee's discussions centered on ways and means to revitalize growth in the developing countries. While the Committee recognized that progress had been achieved it emphasized the need for strengthened adjustment efforts in many developing countries. The Committee recognized that, in general, the growth prospects for the developing countries continue to be adversely affected by persistent weakness in commodity prices, modest growth of the industrial countries, increasing protectionist pressures, high debt service burdens, as well as inadequate external financial flows. It also noted the adverse impact of increases in real interest rates on the economies of the

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1/ Mr. Barber B. Conable, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Fritz Fischer, Executive Secretary of the Development Committee, and Mr. Svetozar Rikanovic, Chairman of the Group of Twenty-Four, participated in the meeting. Observers from a number of international and regional organizations and Switzerland also attended.

developing countries, particularly the heavily indebted countries. The Committee stressed the importance of raising the level of global economic activity by an improvement in the policies of industrial countries. It urged countries to liberalize their trading systems, especially to improve market access for developing countries. In this regard, developed countries were encouraged to pay particular attention to the impact of their industrial and agricultural policies on the developing countries.

4. Members expressed great concern about the exceptional difficulties confronting many low-income countries, especially the seriously indebted in Sub-Saharan Africa, and agreed that there was an urgent need for action. The Committee, therefore, supported the recent proposals by the Bank and the Fund that are geared to the resumption of growth in these countries through more adequate financing and continued adjustment. Members appreciated that these proposals provided donors and creditors with a variety of measures which they could adopt to assist the low-income countries. The Fund and the Bank were urged to strengthen their joint efforts in assisting the low-income countries. It was also noted that further improvements in aid coordination arrangements would help strengthen the development efforts of these countries.

5. The Committee strongly supported the proposal by the World Bank for an increase in IDA disbursements to these countries and hoped that the negotiated IDA 8 replenishment will be made effective soon, so that the resources urgently needed by IDA for this purpose could also be made available expeditiously. It encouraged donors to increase the flow of concessional resources in co-financing operations with the Bank.

6. Members also strongly endorsed the initiative of the Managing Director of the Fund for a substantial increase in the resources of the Structural Adjustment Facility (SAF) to support growth-oriented programs. Some countries have already pledged specific contributions to the enhancement. The Committee emphasized that enhancement of SAF resources should be based on genuine additionality in availability of concessional resources to low-income countries. It called on the international community -- developed and developing countries -- to proceed as quickly as possible with discussions to bring an enhanced SAF into operation. These discussions should be concluded within this year.

7. Members held that the financing needs of low-income countries should largely be met through assistance on appropriately concessional terms. It was noted that a number of donor countries had converted their ODA loans to these countries into grants. Developed donor countries who have not already done so were urged to do so, or if not possible, to take equivalent action tending to this direction. The Committee welcomed the recent decision of the Paris Club to provide longer grace periods and maturities for heavily indebted, very low-income

countries. The Committee also considered proposals for debt relief by reducing interest rates for these countries, provided they were pursuing appropriate adjustment policies. It was noted that for some of these countries continued reliance on rescheduling at commercial interest rates did not provide a realistic solution to the difficulties facing them. They urged donors to find ways to increase the concessional element of their support in order to strengthen the efforts of this group of countries.

8. After a review of growth-oriented programs in the heavily indebted middle-income countries the Committee noted that progress had been achieved by some countries but concluded that there was a need to keep the debt strategy under review so as to enhance prospects for growth and development. Members emphasized the crucial importance of effective adjustment efforts of these countries and recognized that these efforts could be significantly assisted by the correction of imbalances by major industrial countries in order to attain an improved external environment. The Committee underlined the need for increased capital flows on terms adapted to the payments situation and the specific economic circumstances of individual countries.

9. The Committee emphasized that the Bank and the Fund had a strong leadership role to play in expanding flows of finance, as well as in mobilizing additional resources and providing policy advice. Noting the reduced lending by the commercial banks, the Committee encouraged the Bank and the Fund to assist in promoting a "menu" approach, including help in diversifying financial instruments attractive for creditors and bank financing. The Committee wished to see increased private direct investment to the indebted countries so as to improve the availability of non-debt creating resources for development. The International Finance Corporation (IFC) should play an increasing role in this connection, including an intermediary role of debt equity swaps. This could be further reinforced with the early establishment of the Multilateral Investment Guarantee Agency (MIGA).

10. The Committee noted discussions in the Bank's Board of Executive Directors on the modalities for a general capital increase (GCI). Based on the Bank's expanding financial role in helping to meet the needs of the developing countries, the Committee gave full support for a substantial increase in the Bank's capital base, sufficient to support a growing lending program for an appropriately long period of time. The Committee agreed that a general capital increase is urgently needed, and it called on the Executive Directors of the Bank to complete their deliberations on such an increase expeditiously so that the provision of increased capital subscriptions to the Bank could start as soon as possible. In supporting a general capital increase, the Committee emphasized that this should not be regarded as a substitute for expanded flows of resources from private sources. The Committee requested a report by the Bank on this matter for its Spring 1988 meeting.

11. The Committee again benefited from a presentation by the GATT Director General on current international trade issues, in particular on the status of negotiations in the Uruguay Round. While welcoming the progress thus far in these negotiations, Members stressed the importance of ensuring effective observance of the standstill and rollback commitments. The Committee also stressed the importance of trade liberalization in a global strategy on debt and development. The Committee emphasized the role of the Uruguay Round in furthering trade liberalization and removing distortions to trade in both agricultural and industrial products.

12. The Committee, recalling its earlier request for a report on the adequacy of resource transfers to all developing countries, agreed to consider this critical subject at its next meeting. It had a report from the World Bank's President on the Bank's environmental program and agreed to continue further discussion on the subject in April 1988. The Bank was asked to prepare a paper for this discussion taking into account elements in the Brundtland Commission's Report of relevance to the Committee. In the meantime, it called upon the Bank to take forward the initiatives agreed upon at the April 1987 meeting. The Committee reiterated its request for an in-depth study by the Bank and the Fund on the impact of industrial policies of the developed countries on the developing countries for consideration by this Committee as soon as possible. Other important matters discussed included options for dealing with the commodity problems and the poverty impact of adjustment and development programs. The Committee requested the Chairman to develop a work program to deal with these other subjects in future meetings of the Committee taking into account the views of Members.

13. The Committee appointed Mr. Yves Fortin (Canada) to succeed the present Executive Secretary, Mr. Fritz Fischer (Federal Republic of Germany) with effect from November 16, 1987. Members placed on record their deep appreciation for the invaluable service which Mr. Fischer had rendered to the Committee and wished him well in the future.

14. The Committee agreed to meet again in Washington, D.C. on April 15, 1988.