

INTERNATIONAL MONETARY FUND

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

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its twenty-sixth meeting in Washington, D.C., on April 9-10, 1986, under the chairmanship of Mr. H. Onno Ruding, Minister of Finance of the Netherlands. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The Chairman of the Development Committee, Mr. Ghulam Ishaq Khan, took part in certain of the deliberations. The meeting was also attended by observers from a number of international and regional organizations and from Switzerland.

2. The Committee reviewed the World Economic Outlook. Attention was drawn to a number of the major developments in the economic setting since the Committee's last meeting, including the strengthened commitment to reducing budgetary deficits in the United States, the further adjustment in the pattern of exchange rates among major currencies, the continued downward movement in international interest rates, continued progress in reducing inflation, and the sharp decline in oil prices. The decline in oil prices from 1985 to 1986 represents a transfer of income from oil exporting developing countries to the industrial world of the order of \$60 billion. Committee members felt that these developments had generally improved the outlook for sustainable growth. However, it was noted that the financial position of oil exporting countries had been weakened, with consequences for many other developing countries. It was important that the opportunities offered by these price developments be fully seized in order to promote noninflationary growth.

The current and prospective reduction in the U.S. fiscal deficit was welcomed. In respect of those countries where the economy is operating below capacity, and the balance of payments is in strong surplus and inflation is largely eliminated, it was noted that there might be room for more growth-oriented policies in the short term, while preserving the credibility of the authorities' medium-term policy stance. Committee members welcomed the decline in interest rates and hoped that further progress in reducing fiscal pressures and inflation would allow this process to continue, thereby helping capital formation and the growth of output and employment and alleviating the debt burden of developing countries. In the view of the Committee, structural policies aimed at improving the efficiency of resource allocation remained of central importance.

The Committee took particular note of the fact that developing countries continue to face a number of serious problems. The exceptionally difficult economic conditions in low-income countries, especially in Africa, continue to be a matter of special concern. In 1985, world trade had been sluggish, commodity prices fell considerably, imports declined in real terms in many countries, and the growth of output slackened. Nevertheless, some progress was made by developing countries in coping with their economic problems. On the whole, and although there remain notable exceptions, the rate of inflation has been contained and a number of countries have adopted particularly bold anti-inflationary policies; current account deficits remain well below their peak figures of the earlier 1980s. Much remains to be accomplished, however, and the Committee considered it particularly important that effective domestic policies for promoting non-inflationary growth should be pursued.

3. The Committee welcomed the progress that is being achieved in strengthening the current debt strategy along the lines proposed by the United States at the last Annual Meetings. The strategy must continue to be tailored to individual cases and aim at promoting durable growth in debtor countries and restoring normal relations with creditors in the context of a growing world economy.

While the Committee recognized that substantial progress had been made by a number of debtor countries despite difficult external circumstances, it noted that the basic debt ratios remained at difficult levels. It stressed the need for all debtor countries to follow sound macroeconomic and structural policies which are so important in rebuilding financial confidence and for creating a climate more conducive to encouraging domestic savings and productive investment as well as the repatriation of flight capital and direct investment flows.

The Committee also emphasized the importance of sound policies in industrial countries for the successful implementation of the debt strategy. It was important for these countries to maintain open markets, liberalize trade, and pursue policies aimed at increasing growth, reducing exchange rate instability and, in particular, further lowering interest rates.

It was essential to continue coordinated financial support, involving both official and private creditors, for debtors implementing sound economic policies, including those most affected by the recent substantial decline in world oil prices. In some cases, further concerted lending by commercial banks in support of economic adjustment efforts was needed in amounts and on terms appropriate to the circumstances and prospects of individual countries. This would, over time, improve the quality of banks' existing assets. Flexibility in rescheduling official debt was considered essential in support of sound adjustment programs. In addition, the Committee welcomed the move by official export credit agencies in industrial countries toward resuming or increasing cover, on a case-by-case basis, for countries whose debts have been rescheduled and which are undertaking

the policy adjustments necessary to restore their creditworthiness. The Committee stressed the importance of this trend being carried further, but it noted that the resumption of export credit cover must not become a substitute for new funds from commercial banks where these are appropriate.

The Committee reaffirmed the central role of the Fund in providing its members assistance and financing to develop growth-oriented adjustment programs and in serving as a financial catalyst, and noted the increased need for flexibility in the case-by-case application of the policy on enlarged access to Fund resources. The Committee also welcomed the increasingly valuable role being played by the World Bank in the strengthened debt strategy by fostering efficient resource use as well as by providing long-term financial assistance and underlined the importance of close collaboration between the Bank and the Fund in applying this strategy.

4. The Committee had a substantive exchange of views on a number of issues related to the international monetary system. These issues were examined in the reports put before the Committee by the Group of Ten and the Group of Twenty-Four at its last meeting in Seoul, as well as in a report by the Managing Director of the International Monetary Fund on the discussions of these issues in the Executive Board since that time. The Committee's views on the exchange rate system, surveillance, and the role of the SDR are contained in paragraphs 5, 6, and 7.

5. Concerning the exchange rate system, the Committee agreed that the flexibility with which the system had operated had enabled the world economy to adapt to a number of major disturbances; however, the variability of exchange rates and the longer-term misalignments that had emerged remained a source of concern. It was agreed that, if better exchange rate performance were to be achieved on a durable basis, it would be of the essence that economic policies be conducted in a sound and mutually consistent way and that exchange rate considerations should play their part in those policies. The Committee asked the Executive Board to consider further whether there are any modifications in the exchange rate system which could contribute to enhancing exchange rate stability and the mutual consistency of economic policies without sacrificing the essential flexibility of the system.

6. The Committee reconfirmed the key role that Fund surveillance needs to play in the functioning of the international monetary system. The Committee noted that several proposals presented by the Group of Ten and the Group of Twenty-Four to strengthen surveillance are being implemented. To improve the multilateral setting for surveillance, the Committee asked the Executive Board to consider ways in which its regular reviews of the world economic situation could be further adapted to improve the scope for discussing external imbalances, exchange rate developments, and policy interactions among members. An approach worth exploring further was the formulation of a set of objective indicators related to

policy actions and economic performance, having regard to a medium-term framework. Such indicators might help to identify a need for discussion of countries' policies. The Committee noted that increased emphasis would be given in the World Economic Outlook to policy interactions among industrial countries in order to strengthen the basis for assessing the international repercussions of the policies and objectives of the major industrial countries, and also to help promote the further development of recent initiatives to enhance policy coordination among these countries. The Committee stressed the importance of taking into account the views of the whole Fund membership in this multilateral discussion. In addition, the Committee asked the Fund to consider further the ideas in the Group of Ten and Group of Twenty-Four reports regarding the strengthening of the consultation process.

7. The Committee noted the progress made by the Executive Board in studying the functioning of the international reserve system and the role of the SDR in a system in which borrowed reserves play so prominent a part, but are not now readily available to a number of countries with limited access to financial markets. It considered that the SDR, which is an owned reserve asset, can play a useful role as a component of international reserves and as a unit of account. It also recognized the potential use of the SDR as a "safety net" against unexpected contingencies. The Committee stressed the monetary character of the SDR which should not be a means of transferring resources and recommended that the Executive Board study possible improvements in the monetary characteristics of the SDR that would increase its attraction and usefulness as a component of monetary reserves.

The Committee again discussed the question of SDR allocations and determined that, although most members favored an allocation, the broad support needed for an allocation was lacking at this time.

The Committee urged the Executive Board to continue its discussions on the role of the SDR in the present international monetary system and on SDR allocation in the light of proposals, aiming at the different possibilities of obtaining a more balanced and stable proportion of SDRs in members' reserves that have been put forward in that Board, and to report to the Committee at its next meeting on the progress in these discussions.

8. The Committee reiterated the key role of the Fund in assisting countries in designing adjustment policies and in providing balance of payments financing. In this context, the Committee welcomed the decisions taken by the Executive Board establishing the Structural Adjustment Facility (SAF) for providing assistance on concessional terms to low-income countries with protracted balance of payments problems in support of medium-term programs of macroeconomic and structural adjustment in order to foster growth and balance of payments viability. The new facility calls for close collaboration between the Fund and the World Bank with a

view to assisting members in developing their own comprehensive medium-term policy frameworks as a basis for using SAF resources as well as to ensure the flow of additional external resources to these countries from the World Bank, other lending agencies, and donor countries. In furthering their collaboration, the Fund and the Bank should maintain their respective areas of responsibility, avoid cross-conditionality, and ensure that the policy advice given by the two institutions is consistent.

9. The Committee intends to give further consideration at its next meeting to the issues raised in the reports of the Group of Ten and the Group of Twenty-Four. That consideration will be based on the work the Executive Board will carry out in the coming months on these issues, taking into account the guidance it has been given by the Committee.

10. The Committee agreed to hold its next meeting in Washington, D.C. on September 28, 1986.

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INTERIM COMMITTEE ATTENDANCE

April 9-10, 1986

Chairman

H. O. Ruding, Minister of Finance of Netherlands

Managing Director

J. de Larosière

Members or Alternates

Mohammad ABALKHAIL, Minister of Finance and National Economy,
Saudi Arabia
Abdul Malik AL HAMAR, Governor, United Arab Emirates Central Bank
(Alternate for Hikmat M. Al-Azzawi, Governor, Central Bank of Iraq)
Joe AMARA-BANGALI, Minister of Finance, Sierra Leone
James A. BAKER, III, Secretary of the Treasury, United States
Edouard BALLADUR, Minister of State for Economy, Finance and
Privatization, France
Mark EYSKENS, Minister of Finance, Belgium
Erik ÅSBRINK, Undersecretary of State, Ministry of Finance, Sweden
(Alternate for Kjell-Olof Feldt, Minister of Finance, Sweden)
Dilson Domingos FUNARO, Minister of Finance, Brazil
Giovanni GORIA, Minister of the Treasury, Italy
Paul J. KEATING, Treasurer, Australia
Nigel LAWSON, Chancellor of the Exchequer, United Kingdom
LIU Hongru, Vice-Chairman of the Council and First Deputy Governor,
People's Bank of China
Bader-Eddine NOUIOUA, Governor, Banque Centrale d'Algérie
PAY PAY wa Syakassighe, Governor, Banque du Zaïre
W. F. DUISENBERG, President, De Nederlandsche Bank N.V.
(Alternate for H. O. Ruding, Minister of Finance, Netherlands)
Kamchorn SATHIRAKUL, Governor, Bank of Thailand
Jesús SILVA HERZOG, Secretary of Finance and Public Credit, Mexico
Vishwanath Pratap SINGH, Minister of Finance, India
Juan Vital SOURROUILLE, Minister of Economy, Argentina
Gerhard STOLTENBERG, Federal Minister of Finance, Germany
Satoshi SUMITA, Governor, The Bank of Japan
(Alternate for Mr. Noboru Takeshita, Minister of Finance, Japan)
Michael H. WILSON, Minister of Finance, Canada

Observers

Horst Bockelmann, Economic Adviser and Head of the Monetary and
Economic Department, BIS
A. W. Clausen, President, World Bank
Kenneth K.S. Dadzie, Secretary-General, UNCTAD

Arthur Dunkel, Director-General, GATT

Ali K. Hussain, International Monetary and Finance Analyst, OPEC

Ghulam Ishaq Khan, Chairman, Development Committee

Pierre Languetin, Chairman of the Governing Board, Swiss
National Bank

Goran Ohlin, Assistant Secretary-General for Development Research
and Policy Analysis, Department of International Economic and
Social Affairs, UN

Jean-Claude Paye, Secretary-General, OECD

Massimo Russo, Director-General for Economic and Financial
Affairs, CEC