

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-seventh meeting in Washington, D.C. on September 28-29, 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 meeting was also attended by observers from a number of international and regional organizations and from Switzerland.

2. The Committee noted that economic developments since its last meeting have been somewhat mixed. The pace of activity in the industrial countries was slower than expected in the early part of the year, contributing to sluggish growth in world trade and a further decline in already low commodity prices. Also unemployment remains still high in many countries. More recently, however, there have been indications that economic activity has begun to pick up and that economic performance in industrial countries would be stronger in the second half of 1986 and in 1987, as the lagged effect of lower interest rates and terms of trade gains led to higher private expenditure in real terms.

The Committee welcomed the further improvement in price performance in industrial countries, as well as the lower level of interest rates and the adjustments in exchange rates that have taken place among the major currencies and have led to a more satisfactory pattern of exchange rates. It felt that these developments will help place the international economy on a firmer footing. Nevertheless, the Committee realized that uncertainties still exist and considered that the basis for durable growth must be strengthened: the reduction in the federal fiscal deficit sought by the U.S. authorities has to be translated into fact; domestic demand growth outside the United States has to be sustained at an adequate pace, especially in those countries whose relatively strong domestic and external positions provide them with room for manoeuvre; current account imbalances have to be reduced, not least because of their role in encouraging protectionist pressures; and structural impediments to the growth of output have to be tackled.

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3. The Committee noted that the export earnings of developing countries have been severely affected by recent declines in oil and the continued deterioration of other commodity prices, and that it has been necessary for these countries to curb further the growth of imports and domestic demand. Thus, following the recovery of 1984, the rate of growth in developing countries fell in 1985, and is expected to fall further in 1986. Fuel exporting countries and other primary product exporting countries have been severely affected by recent developments and have suffered from stagnant or declining export earnings.

The Committee observed that the debt export ratio of the indebted countries, which fell in 1984, rose in 1985 and seems likely to rise again in 1986 to a higher level than that prevailing at the outset of the debt crisis. On the other hand, declines in international interest rates have brought about some reduction in the cost of servicing outstanding debt, although they remain high in real terms.

4. Committee members stressed the importance of determined implementation of the strengthened debt strategy introduced at the Seoul meetings. They agreed that a satisfactory resolution of the debt difficulties facing the indebted countries was dependent on three basic requirements: effective policies in the indebted countries themselves, aimed at the mobilization of domestic savings, improved allocation of resources, and the maintenance of external competitiveness; satisfactory growth in, and access to, export markets; and adequate external financial support for growth-oriented programs of adjustment. The Committee members emphasized the central role of the Fund in promoting growth-oriented adjustment programs, including the provision of assistance to its members in the design and financing of such programs, taking into account the individual circumstances of indebted countries. They noted that close collaboration between the Fund and the World Bank has been an essential part of efforts to support efficient resource use and growth-oriented policy reforms in member countries. In this connection, they welcomed the stepped-up loan commitments of the World Bank. The contribution that both institutions are making as financial catalysts was also stressed. Committee members welcomed the proposed package for Mexico as an example of the strengthened debt strategy and hoped that the package can be finalized promptly.

The Committee recognized the significant debt relief provided by official rescheduling in the Paris Club. In this connection, it noted with satisfaction the greater flexibility of official export credit agencies of industrial countries in resuming, or increasing, cover for countries whose debts have been rescheduled and which are undertaking the necessary policy adjustments to restore creditworthiness. It was noted that a significant number of the most heavily indebted countries have made good progress in strengthening domestic economic performance and improving their prospects for attracting increased flows of funds. Nevertheless, while the recent volume of lending commitments by multilateral development banks has been

encouraging and officially supported export credits have grown notably, other sources of finance, particularly commercial bank lending, have declined and need to play a greater role.

The Committee also urged that concessional assistance to low-income countries should increase.

5. The Committee expressed concern that protectionist pressures have intensified and noted that many difficult trade policy issues are in need of urgent attention. Particular mention was made of the harmful consequences of subsidies. The importance of a liberal trading environment was also stressed as a key element for a satisfactory solution to current debt difficulties and for the needed structural changes in both industrial and developing countries. In addition it was emphasized that a strengthened and more open multilateral trading system is needed to reinforce international cooperation and improve world growth prospects. The major trading nations have a special role to play in keeping markets open and tackling trade policy problems flexibly, but developing countries should also resist pressures toward inward-oriented policies.

The Committee warmly welcomed the recent Ministerial Declaration on the Uruguay Round of multilateral trade negotiations, which is aimed at halting and reversing protectionism and developing a more open multilateral trading system, thereby reaffirming the role of trade policy in facilitating sustainable economic growth. Given the difficulty of the task, the Committee urged governments to make every effort to ensure an early and successful conclusion to the new round.

6. The Committee noted the progress made thus far in operations under the Structural Adjustment Facility (SAF) and the strengthened Fund-Bank collaboration evident in these operations. The Committee members stressed the potential that the SAF holds for promoting adjustment and growth in low-income countries and agreed that it would be desirable to enhance the catalytic role of the SAF in mobilizing additional multilateral and bilateral concessional resources for those countries that can absorb them most efficiently, without adversely affecting the availability of concessional development finance for low-income countries not availing themselves of the SAF. They noted that the Executive Board is due to review the operation of the facility in the light of the experience gained.

7.3. The Committee continued its exchange of views on issues related to the international monetary system that were examined in the reports put before it by the Group of Ten and the Group of Twenty-Four in October 1985. The Committee urged the Executive Board to examine expeditiously the role of the Fund as referred to in the reports of the Group of Ten and the Group of Twenty-Four. The Committee's discussion focused on the use of

indicators in surveillance and the potential role of the SDR. Committee members welcomed the agreement at the Tokyo Summit to use indicators in conducting surveillance as part of efforts to strengthen international economic cooperation. They also supported the greater use, in the latest World Economic Outlook analysis, of indicators of economic policies and performance. They considered that this analysis was helpful in focusing attention on potential incompatibilities in national economic policies and projections, particularly among the larger countries whose policies have substantial international impact. A key focus of indicators should be on points of interaction among national economies, in particular developments affecting the sustainability of balance of payments positions, and on the policies underlying them. It was generally agreed that a better use of indicators would be a helpful tool in strengthening the Fund's surveillance activities. The Committee asked the Executive Board to develop further the application of indicators in the context both of the periodic consultations with individual member countries and of the World Economic Outlook so as to facilitate the multilateral appraisal and coordination of economic policies.

8. With regard to the role of the SDR in the international reserve system, the Committee noted that the Executive Board had reviewed various aspects of the SDR system, including proposals relating to post-allocation adjustments of the distribution of SDRs among members and to techniques for improving the pattern of members' SDR holdings in relation to other reserve assets. The Committee welcomed the substantial increase in voluntary transfers of SDRs among members, which served to improve the liquidity and usability of the asset. 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 requested the Executive Board to continue its discussions of proposals to enhance the contribution of the SDR to the creation and allocation of international liquidity.

9. The Committee noted the report by the Managing Director on a recent Executive Board discussion of the question of SDR allocation in the next allocation period, 1987-91. Although most of the Executive Directors had supported an SDR allocation in that discussion, the broad support needed under the Articles of Agreement had been lacking. The Committee urged the Board to keep the matter under review. In this regard, the Committee welcomed the intention of the Executive Board to study further the long-term global need for reserve supplementation in the context of the conditions under which the international monetary and exchange systems are now operating. It invited the Board to report on the results of this examination and on the progress made about an allocation at the Committee's next meeting.

10. The Committee discussed the question of the Fund's policy on enlarged access and the limits on access to the Fund's resources in 1987. It was recalled that enlarged access is of a temporary character and that this policy and the limits applicable under it, as well as the access limits under the Fund's special facilities, were to be reviewed before the end of 1986.

The Committee noted that, in view of the uncertainties that continued to surround the world economy and of the worsening payments difficulties of a number of member countries, there was a need to continue the enlarged access policy. In the circumstances, it was judged that the present access limits, both under the enlarged access policy and under the special facilities, should be retained in 1987. The Committee also noted that the Executive Board had concluded, in its recent review of the Fund's liquidity and financing needs, that the Fund's liquidity position continues to be broadly satisfactory.

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.

11. The Committee welcomed the offer made by Japan to provide the Fund with SDR 3 billion to enhance its ability to support members' adjustment efforts.

12. The members of the Committee paid special tribute to Mr. de Larosière's wise, imaginative, and courageous leadership of the International Monetary Fund. They were unanimous in expressing warm and deep appreciation for his many outstanding accomplishments as Managing Director and for his invaluable contributions to the work of the Interim Committee. His dedication to achieving the purposes of the International Monetary Fund and his inspiring service have been of key importance in the guidance of the international monetary system at a critical period for the world economy.

13. The Committee agreed to hold its next meeting in Washington, D.C. on April 9, 1987.

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INTERIM COMMITTEE ATTENDANCE

September 28-29, 1986

Chairman

H. O. Ruding, Minister of Finance of Netherlands

Managing Director

J. de Larosière

Members or Alternates

Hamad AL-SAYARI, Governor, Saudi Arabian Monetary Agency
(Alternate for Mohammad Abalkhail, Minister of Finance and National Economy, Saudi Arabia)
Hikmat M. AL-AZZAWI, Governor, Central Bank of Iraq
James A. BAKER, III, Secretary of the Treasury, United States
Edouard BALLADUR, Minister of Economy, Finance and Privatization, France
Mark EYSKENS, Minister of Finance, Belgium
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
Kiichi MIYAZAWA, Minister of Finance, Japan
Bader-Eddine NOUIOUA, Governor, Banque Centrale d'Algérie
PAY PAY wa Syakassighe, Governor, Banque du Zaïre
Gustavo PETRICIOLI, Secretary of Finance and Public Credit, Mexico
W. F. DUISENBERG, President, De Nederlandsche Bank N.V.
(Alternate for H. O. Ruding, Minister of Finance, Netherlands)
Kamchorn SATHIRAKUL, Governor, Bank of Thailand
R. N. MALHOTRA, Governor, Reserve Bank of India
(Alternate for Vishwanath Pratap SINGH, Minister of Finance, India)
Juan Vital SOURROUILLE, Minister of Economy, Argentina
Gerhard STOLTENBERG, Federal Minister of Finance, Germany
Robert C. TUBMAN, Minister of Finance, Liberia
Michael H. WILSON, Minister of Finance, Canada

Observers

Yves Berthelot, Deputy Secretary-General, UNCTAD
Barber B. Conable, President, World Bank
Arthur Dunkel, Director General, GATT
Ghulam Ishaq Khan, Chairman, Development Committee

Alexandre Lamfalussy, General Manager, BIS
Pierre Languetin, Chairman of the Governing Board, Swiss
National Bank
Pedro Malan, Director, General Analysis and Policies Division,
Department of International Economic and Social Affairs, UN
Abel Matutes, Commissioner for Credit, Investments and
Financial Instruments, CEC
Jean-Claude Paye, Secretary-General, OECD
Massood V. Samii, Head, Finance Section, Economic and Finance
Department, OPEC