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EBD/85/154

June 21, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Tokyo - Communiqué of the Ministers and Governors of the
Group of Ten

There is attached for the information of the Executive Directors the Communiqué of the Ministers and Governors of the Group of Ten issued in Tokyo on June 21.

The report of the Deputies referred to in the last paragraph of the communiqué is being circulated under separate cover.

Att: (1)

Other Distribution:
Department Heads

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COMMUNIQUE OF THE MINISTERS AND GOVERNORS OF THE GROUP OF TEN

Tokyo, June 21, 1985

1. The Ministers and Central Bank Governors of the countries participating in the General Arrangements to Borrow (GAB) met in Tokyo on June 21, 1985. The meeting was chaired by Mr. N. Takeshita, Minister of Finance of Japan. The Managing Director of the International Monetary Fund, Mr. J. de Larosière, took part in the meeting, which was also attended by Mr. J.-C. Paye, Secretary-General of the Organisation for Economic Co-operation and Development, Mr. A. Lamfalussy, General Manager of the Bank for International Settlements, and Mr. M. Russo, Director General of the Commission of the European Communities.

2. The Ministers and Governors agreed on the attached statements.

3. The Ministers and Governors expressed their gratitude to the Japanese authorities for their most cordial hospitality and for the excellent meeting arrangements.



Statement by the Ministers and Governors of the Group of Ten
agreed at their meeting in Tokyo on June 21, 1985

1. We have considered a report of our Deputies on the functioning and the conditions for the improvement of the international monetary system, which we had instructed them to prepare, following the invitation for such a review at the 1983 Williamsburg Economic Summit.

2. We welcome the report and endorse its general conclusion that the basic structure of the present system as reflected in the Articles of Agreement of the IMF remains valid and requires no major institutional change. We believe, however, that the system has also shown weaknesses and that there is a need to improve its functioning.

3. We remain of the view that a return to a generalized system of fixed parities is unrealistic at the present time. We believe that the present exchange rate system based on the floating of major currencies has provided essential flexibility in a difficult global environment. We recognize, however, that at times exchange rate variability has been considerable. Thus, we underline the desirability of further action to provide a basis for greater stability in exchange and financial markets.

4. We believe that the achievement of such stability requires sound domestic policies as well as close and continuing cooperation among major countries. In particular, we emphasize the following:

- (i) An essential condition of exchange rate stability is convergence of economic performance in the direction of sustainable non-inflationary growth.
- (ii) This, in turn, requires not only sound, consistent policies, but also the removal of artificial barriers and structural rigidities. Indeed, exchange rate stability cannot be achieved through policies and devices that aim at maintaining exchange rates at levels not in line with the economic fundamentals.
- (iii) The international implications and interactions of domestic economic policies should be given close attention in the domestic policy-making process and in international consultations.

- (iv) A wide range of factors, including developments in exchange rates, fiscal and monetary policies, structural rigidities, and barriers to international trade and capital flows should be taken into account in determining the need for consultations and policy discussion.
- (v) The role of exchange market intervention can only be a limited one, as intervention will normally be useful only when complementing and supporting other appropriate policies. However, intervention can be useful to counter disorderly market conditions and reduce short-term volatility. Countries should be willing to undertake coordinated intervention on occasions when it is agreed that it would be helpful.

5. We have considered a proposal for the introduction of target zones for exchange rates as more formal and binding indicators for the conduct of macroeconomic policies. In this respect, an interest has been expressed by some of us for having the technical aspects of target zones further explored at an appropriate time. The majority of us, however, consider that a move to target zones would not offer a practical way forward in present circumstances.

6. We agree that the achievement of greater exchange rate stability requires a general strengthening of international surveillance, and have considered the recommendations in the Deputies' report to improve the effectiveness of IMF surveillance. These include suggested innovations on the level at which consultations should take place and the arrangements for consideration of their outcome, the development of "enhanced" surveillance in certain cases, the increased use of special or supplemental consultations, and the introduction of strengthened arrangements for multilateral surveillance. We believe that the implementation of suggestions on these lines would sharpen the focus of surveillance, enabling the IMF to deal more effectively both with the domestic problems of individual members and with problems of systemic relevance. We recommend that the IMF Executive Board consider the report's specific proposals in these areas with a view to their early implementation, as appropriate.

7. We share the Deputies' conclusion that, in order to improve the stability of the international monetary system, it would be necessary to avoid excessive swings in the availability of international liquidity. We recognize the important contribution which international capital markets have made in meeting external financing needs. We note, however, that the provision of such liquidity will continue to be affected by the creditworthiness of borrowers, by the policies of major countries, and by the credit conditions in international financial markets.

We endorse the suggestions that the IMF improve its surveillance over the policies of countries bearing on these issues. We also recognize the need to deregulate further capital markets and liberalize capital movements, as well as to provide official financing on appropriate terms to developing countries which, despite adjustment efforts, lack sufficient access to financial markets.

8. We have reviewed the role of the SDR. We recognize that the international monetary system has changed considerably since the original creation of the SDR scheme and that this has affected the rationale for the SDR. We recognize, however, that the SDR may have a useful role in meeting a long-term global need for reserves and in this context in providing a safety net for future contingencies. In these circumstances, we support the intention of the IMF Executive Directors to carry out a comprehensive review of the future role of the SDR in the system.

9. We recognize the vital role that the IMF plays in promoting a sound, stable international system of trade and payments, and we reaffirm our strong support for the IMF. We stress the need to safeguard the monetary character of the IMF, to maintain the IMF as a quota-based institution, to preserve its role as a source of temporary balance of payments financing, to keep its lending normally in line with quota resources, and to continue ensuring effective conditionality. In this context, we remain of the view that IMF credit should be available on a sufficient scale to provide meaningful support to members and to serve as an important catalyst for other lending in support of effective adjustment. We also recognize that cooperation between the IMF and the IBRD should be strengthened to address individual country problems in a coordinated manner, particularly where a reduction in access to IMF credit might be accompanied by appropriate forms of increased IBRD lending, without jeopardizing the unique purposes of each institution.

10. We have requested our Chairman to transmit the Deputies' report to the Chairman of the Interim Committee, with the suggestion that the report receive preliminary consideration at its meeting in Seoul on October 6, 1985.

11. The full text of the Deputies' report is released together with this statement.

