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SUMMARY PROCEEDINGS

OF THE FORTY-SECOND ANNUAL MEETING

OF THE BOARD OF GOVERNORS

SEPTEMBER 29–OCTOBER 1, 1987

WASHINGTON, D.C.

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*Speaking on behalf of a group of countries.

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STATEMENTS BY GOVERNORS

Listed in Alphabetical Order by Country

INTRODUCTORY NOTE

The Forty-Second Annual Meeting of the Board of Governors of the International Monetary Fund was held in Washington, D.C. from September 29 through October 1, 1987, jointly with the Annual Meetings of the Boards of Governors of the International Bank for Reconstruction and Development, the International Finance Corporation, and the International Development Association. His Excellency Ibrahim Abdul Karim, Governor for Bahrain, served as Chairman.

These Summary Proceedings include statements, or portions of statements, relating to the work of the Fund presented by Governors during the Meetings, resolutions adopted by the Board of Governors of the Fund over the past year, reports, recommendations, or communiqués issued by the Committees of the Board of Governors at the time of the Meetings, and other documents relating to the Meetings. Statements, or portions thereof, relating to the work of the World Bank are omitted from these Summary Proceedings; the insertion of dots (. . .) within statements indicates where passages have been omitted. Statements not reproduced in these Summary Proceedings may be found in the Summary Proceedings of the Annual Meetings of the Bank and its affiliates, issued separately by the Bank.

Statements by the Governors are listed in alphabetical order by country on pages ix and x. A reference list of principal topics discussed in the statements is given on pages 291–96, and a list of abbreviations used in the statements and documents is given on page 297.

LEO VAN HOUTVEN
Secretary
International Monetary Fund

Washington, D.C.
December 31, 1987

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ADDRESS BY THE PRESIDENT OF THE UNITED STATES [1]

Ronald Reagan

I appreciate this opportunity to speak with you today. I still remember when we first met together, not that long after my arrival in Washington. Then, we talked about a revolution in economic thinking, a revolution whose ideas have proven themselves in the years since. And while progress has been made, formidable challenges remain. It is fitting then, on this occasion, that we make an assessment, and discuss our vision of the world's economic potential, as mankind, quite literally, moves toward a new millennium.

Making an assessment and setting goals are, of course, nothing more than good management. And if there is anything that the working people, whose taxes contribute to the support of our institutions, have a right to insist upon, it is just that: good management. The world looks to us for leadership, to set a standard of honesty, responsibility, and rational decision making.

You know, when I mention good management, that doesn't mean that everything always goes as expected. There is a story about a man who was invited to the opening of a new branch office of a business owned by his friend. And the man ordered some flowers sent over for the occasion, but was shocked when he arrived to see that the inscription on the floral bouquet read, "Rest in Peace." Well, on the way home, he stopped at the florist to complain. And the florist simply said, "Well, you know, don't get upset. Just look at it this way. Today someone in this city was buried beneath a floral bouquet with the inscription, 'Good luck in your new location.' "

I'd like to take this opportunity to thank each of you for the exemplary work you've been doing and to express my deep appreciation to Barber Conable and Michel Camdessus for their outstanding service.

When I first addressed these institutions six years ago, the United States was suffering from economic decisions that can only be described as bad management. Inflation, stagnation, and 21 percent interest rates were the order of the day.

Good management must be built on sound principle. And before our economic revolution, the decision makers increasingly put their faith in solutions that, no matter how well intended, did not work. Instead of encouraging enterprise and production, the emphasis was on bureaucratic planning

[1] Delivered at the Opening Joint Session, September 29, 1987.

and redistribution. Instead of demanding measurable results and strict accounting from public spending, the federal spigot was turned on. Resources were drained from productive, job-creating enterprises in the private sector and siphoned to questionable, ineffective, and often counterproductive government programs. Decentralized decision making in the private sector and in local and state government was supplanted by federal planning, as new power and resources were centralized in the federal bureaucracy.

But as we found out to our detriment, good management should never be mistaken for the expansion of government control and power over an economy. Good management, if it means anything, must bring a country closer to reaching its full potential and must improve the well-being of its people.

That is obviously not what was happening in the United States in the late 1970s. Policies then in place led to declining productivity, a drop in the GNP, lower real take-home pay, and a dramatic rise in poverty. In 1980, the American people called for fundamental change, reform that would put this country solidly back on the road to growth, expansion, and long-term stability.

Our goal was to increase economic activity from the bottom up. Again, good management doesn't mean amassing control and authority. It means finding ways of achieving one's objectives. In dealing with a national economy, it means opening opportunity for the people and giving them the incentive to work more efficiently and to invest in economy-building projects and job-creating businesses; it means making certain that excessive regulation doesn't strangle enterprise; it means leaving enough resources in the private sector to serve the needs of investment; it means competition, even from foreign companies; and more than anything else, it means expanding freedom and opportunity for individuals instead of increasing the power of the state.

You know, it is said that an economist is the only professional who sees something working in practice and then seriously wonders if it works in theory. Whether one agrees with the theory, the results have been undeniable. The people of the United States have now enjoyed 57 straight months of growth, which will shortly be the longest peacetime expansion in the postwar era. Inflation, which was public enemy number one in 1980, has been cut by nearly two thirds. Unemployment is down, and employment in our country is at its highest level in history. Interest rates are down. Productivity is up. Real family income is up. And we've at last reversed the rise in poverty that began in 1979.

Credit for these accomplishments belongs to the American people themselves because, as is often the case, the best thing government can do is get out of the way. And that's just what we've tried to do.

Our expanding economy has not only improved the well-being of our own citizens, but has served as an engine for progress throughout the world. The expansion of trade and international commerce during the last six years has

helped keep our prices low, our industry and manufacturing competitive, and our economy growing. At the same time, expanding trade with the United States has helped many countries weather an economic storm. Earnings from exports to the United States, in some cases, made all the difference. The central themes of our relations, especially with developing countries, have been, and should continue to be, trade rather than aid, mutual benefit rather than charity, a hand up rather than a handout.

There is, of course, the trade deficit—something of justifiable concern both in this country and abroad. Corrections are necessary, and there are strong signs that corrections are under way. It is vital, however, that policymakers not be stampeded into self-destructive action. There has been a chorus of American politicians playing to the fears of working people, singing the song of protectionism and charging that, as a result of the trade deficit, jobs will go overseas, unemployment will rise, and the United States will be deindustrialized.

It sounds good as part of a political campaign speech, but as an old Virginia lawyer once told his hometown jury, "'tain't so." Unemployment has declined in the United States by 40 percent since late 1982, even as our trade deficit has grown. In Japan and Germany, countries with large trade surpluses, unemployment has gone up. And a long-term analysis shows us holding our own in manufacturing jobs. Importantly, from the end of 1982 to the present, during a time of large trade deficits, manufacturing jobs in the United States grew by more than a million. Furthermore, real wages in manufacturing, which declined by 7 percent from 1977 to 1981, increased by 2½ percent from 1981 to 1986.

The trade deficit is symptomatic of structural problems that we as managers need to address. Self-destructive protectionism, however, is definitely not the answer. I pledge to you that any protectionist legislation reaching my desk is going to be returned to the Congress with a veto on the cover.

Part of the answer lies here at home. As I noted at the economic summit in Venice last June, it is imperative that the United States consistently reduce its federal deficit spending. Today, I will sign a bill that reinstates our deficit reduction targets as part of an extension of the borrowing authority of the United States Government. This was not an easy decision.

On one hand was the responsibility to preserve our 200-year history of meeting our obligations and maintaining credibility and reliability to our own citizens and to the world.

On the other hand was the political debate being waged between those who favor either raising taxes or cutting defense—or both—and those of us committed to further reductions in domestic spending, reductions that will bring down the deficit and keep our economy strong.

As I said, it was a tough decision. It should be seen as a signal that America is not backing down from its responsibilities. But having made this decision, I call on the surplus countries to do the same—to find the political gumption to

stimulate their economies without re-igniting the fires of inflation. It must be recognized that the health of the world economy does not hinge solely on U.S. budget policy. As U.S. budget and trade deficits decline, other countries must pick up the slack, particularly on imports from developing countries.

Our focus—and this means all of us—must be on achieving balanced growth and more open economies. Secretary Baker and finance ministers from other major countries have been working hard to devise ways to achieve these dual goals. This is a true test of our ability to manage the international economy.

Certainly we cannot succeed without an open and fair world trading system. As the pace of change picks up, it is essential that the guidelines for trade, the rules of the road for international commerce, be kept up to date and that recurring areas of friction be dealt with. That is why our Government is totally committed to the success of the Uruguay Round of trade negotiations. GATT has played a major role in expanding world trade and economic growth in these last four decades. Now it must address new areas, as technology and changing circumstances vastly increase the potential and scope of economic dealings between the peoples of the world. Services, investment, and intellectual property protection, formerly of only domestic concern, are now economic activities that are part of the arena of world commerce and must be included in any overall trade agreement.

The management decisions are ours to make. This is a time of tremendous opportunity to set in place a world trading structure that will carry mankind to new levels of enterprise, opportunity, and well-being. A good place to start achieving that laudable goal is with the substantive proposals the United States has set forth concerning agriculture.

For too long, our farm policies have managed us, instead of we managing them. Unless decisive and common action is taken, this growing burden could well overwhelm us. In the major Western economies, farm subsidies alone have jumped from $10–15 billion in 1970 to $100 billion in 1986. And those are just the direct costs. Billions of dollars are being spent by governments for capital investment in agriculture that would be totally unnecessary with an open trading system. Consumers in nations that limit agricultural imports are forced to pay higher prices using family resources that could be put to much better use.

The unnecessary costs, market distortions, and the inefficiencies of current agriculture policy are part of the political and economic landscape throughout much of the Western world. And for that very reason—the commonality of the problem—we believe a broad-based, cooperative, international solution is the only answer.

We are asking the people of the world to consider not piecemeal reform, but revolutionary change in the production and distribution of food and fiber. We

propose a total phaseout over the next ten years of farm export subsidies, quotas, nontariff barriers, and all distortions of agricultural markets. In doing so, world food costs will be cut, government budgets spared, wasteful practices eliminated, and economic growth boosted on a broad international scale. We envision by the end of the century an open and free trading system in agricultural products throughout the vast expanses of the world: people of every land, communicating, cooperating, and competing with each other, buying and selling, producing and distributing, finding more efficient ways of meeting the universal challenge of keeping food on the table.

And what we accomplish in agriculture may some day be used as a blueprint for opening borders throughout the planet to the totality of trade and commerce of every nation—a global free and fair trading system, uniting and uplifting all mankind. And today, as we reaffirm our goals, let us underscore that, as mankind moves forward, we go together. No nation will be excluded; no people left behind.

The United States remains fully committed to doing its part in working with those developing nations that are struggling to improve the well-being of their people. Overcoming the obstacles to progress in these poorer nations is, perhaps, the greatest management challenge in the world today. A cooperative solution to the debt problem is the only real answer. It involves a partnership among developing countries, commercial banks, and international financial institutions.

The huge debt burden carried in the Third World is not just their problem; it is our problem. And today let us pledge: We will solve it together.

First and foremost, let us move forward with the understanding that there are no easy answers or quick fixes. Those who counsel otherwise are either mistaken or malicious. Now is the time for rational decision making and responsible action. Those who choose to follow false prophets, to live in an illusion instead of seeking a solution, will be left with the consequences of their actions.

What the United States has proposed is a positive program, a forward strategy, if you will, that will see debt retired not by extracting wealth from nations that are already too poor, but by increasing the level of economic activity and servicing the debt from new wealth. Last week, Secretary Baker announced added U.S. support for this program with his endorsement of expanding the resources of the World Bank. A number of proposals to strengthen the Fund's ability to promote growth-oriented reform will be advanced soon. But this alone will not be enough.

Leaders in debtor nations have tough decisions to make. Our slogan must be: It can be done.

And let no one suggest that some people are condemned by culture or race to misery and deprivation. Victor Hugo once wrote: "People do not lack

strength; they lack will." And the "will" comes from a realization that one can accomplish what one sets out to do, that great deeds are possible.

What is needed is commitment and, as in all good management plans, a model that works. The world is not without such models. In the last 30 years there has been extraordinary growth and economic advancement in what were underdeveloped nations around the Pacific Rim, some of which are poor in every significant natural resource, including adequate territory. These peoples have overcome great difficulties, improved their living standards, and become a major force in the world economy. They have done so using economic concepts similar to those that helped reinvigorate America's economy these last five years. Tax structures and regulatory policies designed to encourage investment and enterprise are the magic behind the miracle. And debt, coincidentally, has not been the serious roadblock to growth on the Pacific Rim that it has been elsewhere.

The success I'm talking about is in stark contrast to the misery and decline so evident in nations that have followed statist development models. In many parts of Africa, collectivism has brought decline even in countries rich in natural resources. There are, however, reasons for hope that the corner has been turned in Africa. A growing commitment to economic reform is one of the most promising developments in years. Senegal, Ghana, Cameroon, and Malawi are some of the countries where market-oriented reforms are being put in place. The World Bank and the Fund are supporting these efforts. The United States will do all we can. U.S. economic efforts in sub-Saharan Africa are aimed toward ending hunger through economic growth, policy reform, and private sector development. My hope is that cooperative support for policy reform in Africa—including the active participation of other donor countries and institutions—can eliminate hunger in Africa by the end of the century.

The promise in some African countries is in stark contrast to the continuing plight of Ethiopia. It's time to admit that in Ethiopia, statism, as well as drought, was the cause of a human tragedy that touched the hearts of people throughout the world. Yet even as food, medicine, and other humanitarian support has poured into Ethiopia—donated by caring people in Western countries—the Marxist government there, supported by the Soviet Union, has barreled down a path that obliterates hope for the future. Sadly, famine again is returning to that land, and it is becoming ever more clear that fundamental changes must occur if their 2,000-year-old society is to survive.

Ethiopia, of course, is an extreme example. Nevertheless, there is an undeniable relationship between freedom and human progress in every part of the world. The more repressive the government, the more controlled the economy, the more confiscatory the taxation, the more likely a society is to sink into poverty and despair. John Dos Passos was so right when he observed, "Marxism has not only failed to promote human freedom. It has failed to produce food."

Leaders in China understood this when they began easing their country toward a freer economic system. Reform in China is now widespread and dramatic. From 1979 to 1985 the value of agricultural output in China rose at more than double the rate of the 15 previous years. Rural per capita income more than doubled. The total grain harvest went from 300 million tons in 1978 to over 400 million tons in 1984. In fact, in 1985, for the first time in 25 years, China became a net grain exporter. Similar progress is being enjoyed in other areas of the economy where reforms have been instituted.

Throughout the world, people are realizing that moving forward will require cutting themselves free from statist controls and from the weight of heavily subsidized government enterprises. In many industrialized countries, and in Third World countries as well, deregulation is the order of the day. Instead of looking at private enterprise as the adversary, many governments now see it as their best hope for progress and development. Tax rates are being lowered from New Zealand to France, from India to England. Government corporations are being privatized, denationalized, and cut off from subsidies from Ghana to Argentina, from the Philippines to Mexico.

The impetus for privatization directly complements efforts to reduce the debt burden. Debt-equity swaps can offer a method of turning money-losing government operations into tax-paying private businesses. The debt is reduced and a budget obligation is eliminated. The government is, thereby, free to use its resources and focus its attention on other matters.

My Presidential Task Force on Project Economic Justice, headed by Ambassador William Middendorf, recommended that this method could be used not only to bring down the debt and stimulate privatization, but to expand employee ownership as well. Bold, innovative ideas like this are consistent with the overall American debt strategy and deserve to be given serious consideration. What is not needed now is business as usual. The United States will continue working with all those who are putting forth an honest effort to deal with the debt dilemma.

As vexing as our problems are, let no one doubt democracy works. The unbridled energy of free people is the most powerful, creative, and moral force on this planet. And through all the political maneuvering and public debate, through the arduous negotiations, compromises, and balloting, one cannot but feel that he or she is part of something far more grand, far more historic. There is more evidence every day that the future is on the side of the free. In the Western Hemisphere, the 1980s have seen an historic shift to democracy. Today 90 percent of the people of the hemisphere live in countries that are either democratic or in transition to democracy.

All who love liberty are heartened by the return to democracy in the Philippines and by recent events in South Korea. All this is reason for confidence that mankind is truly moving into a new era of freedom and prosperity, these two mutually reinforcing goals.

Andres Bello, intellectual giant of the last century, once wrote: "All truths touch on one another, from those that govern the path of the planets in space... to those that delineate the actions and reactions of political forces.... Progress in one line attracts progress in all others, all are connected and propel one another forward."

Today we are part of that process of free men and women that is propelling mankind forward. The World Bank, the International Monetary Fund, and each of you are playing a vital role, and it has been my honor to speak with you today.

OPENING ADDRESS BY THE CHAIRMAN OF THE BOARDS OF GOVERNORS, THE GOVERNOR OF THE FUND AND THE BANK FOR BAHRAIN [1]

Ibrahim Abdul Karim

In The Name of God Most Gracious, Most Merciful:

It is my honor and privilege to welcome you all to these Forty-Second Annual Meetings of the Boards of Governors of the World Bank and its affiliates and the International Monetary Fund. I am confident that our deliberations at these meetings will assist us in making further progress toward the common goal of restoring a sound, expanding world economy.

As Chairman, and on behalf of all of you, I would like to express our thanks to President Reagan and to the people of the United States for their hospitality. May I also take this opportunity to welcome Mr. Michel Camdessus, the new Managing Director of the International Monetary Fund who succeeds Mr. Jacques de Larosière. I wish him all success in his task. I am quite confident Mr. Camdessus' experience and distinguished career will enhance the role of the Fund in the world economy.

It is indeed a great honor for my country, Bahrain, and for me personally to be elected Chairman of the meetings of the Boards of Governors of the Bank and the Fund. Within these two institutions we endeavor to focus on international cooperation and give special attention to joint efforts in promoting the welfare of mankind, regardless of race, color, or creed.

Bahrain's contacts with the rest of the world, since the early days of history and its continuous interaction with neighboring countries, have instilled in us a strong belief in the importance of international cooperation and have led us to be early advocates of this cause. Bahrain has always been recognized as a trading center, maintaining relations with other civilizations. Recent archaeological discoveries in Bahrain of templates and ancient seals dating back to the Dilmun civilization, which existed some 4,000 years ago, illustrate that even then Bahraini traders used letters of credit for trading with merchants of Sumer, Babylonia, and the Indus Valley. Such letters of credit were probably the first ever to be used in the world.

Bahrain cannot be detached from the Arab world, being part of the distinguished and ancient Arab heritage which has contributed for several centuries

[1] Delivered at the Opening Joint Session, September 29, 1987.

toward the progress of knowledge and enriched the growth of other civilizations. Bahrain is also part of the spiritual heritage of the region from which the three Divine religions evolved: Judaism, Christianity, and Islam, all of which have called for peace and justice toward mankind. The following verse from the Holy Koran is an explicit example:

Let there arise out of you,
A band of people
Inviting to all that is good,
Enjoining what is right,
And forbidding what is wrong,
They are the ones
To attain felicity.

Bahrain's characteristics have been enhanced throughout history, and it has evolved as a major financial and banking center in the Middle East, providing facilities for channeling the flow of development credits to the rest of the world and, in particular, the developing countries.

Bahrain's achievements over the last 20 years have resulted in a diversification of economic activities, creating features common to both the developed and developing countries. The rate of economic growth has been substantial, and our standard of living is at present as high as that of some of the industrial countries. At the same time, Bahrain is endeavoring to diversify further and expand its infrastructure in order to maintain its growth. Due to fluctuations in the world economy, we also encounter adjustment problems similar to those in developing countries.

Addressing these Annual Meetings allows one to look at world economic problems and to consider practical solutions. The growth of world output in 1986 and 1987 has been weaker than we expected at the time of last year's Annual Meetings; some progress has, however, been made toward resolving a few of the problems confronting the international system. Output growth has been relatively rapid in some non-oil exporting developing countries, the major industrial countries have made efforts to strengthen the coordination of their economic policies, key exchange rate relationships have come better into line with underlying economic conditions, and inflation has remained low.

These encouraging developments, however, have been overshadowed by a number of negative trends. Output growth in the industrial countries slowed between 1985 and 1986 and shows little sign of having picked up in 1987. Also, the persistence of substantial current account imbalances among the three largest industrial economies has contributed to a marked intensification of protectionist pressures and to a worrying increase in trade barriers.

The prolonged weakness of commodity prices has severely affected the terms of trade of many developing countries, with the oil exporting developing countries being particularly hard hit. These difficulties were exacerbated by

the fall in bank lending to developing countries and the persistence of historically high real interest rates. Living standards have continued to deteriorate in many developing countries, and as these countries have had to divert a substantial portion of their limited resources to correcting external imbalances, per capita consumption has remained low and often has declined. The structural imbalances in the world economy have multiplied and the gap between economic and social conditions in industrial and developing countries has widened, henceforth making it even more difficult to achieve our goal of a balanced international economic growth.

The world debt crisis is becoming more acute, and many indebted developing countries encounter difficult economic conditions which constrain their ability to service their large debts. Therefore, it will be difficult for such countries to make progress under the prevailing conditions. There is the risk of additional economic and political instability. The debt is accelerating in relation to the growth rate of the debtors' economies.

Net commercial bank lending to all developing countries has fallen abruptly, hampering the efforts of countries undertaking adjustment programs and discouraging others from adopting needed corrective policies. This is a very serious development, which has also hampered normal access to international capital markets by countries not experiencing debt-servicing difficulties. Indeed, the failure to deal effectively with the debt problem ultimately could jeopardize peace and stability in the world.

We must pause here to question the most feasible method of tackling these problems, in order to reduce their impact on the borrowers and lenders alike. I am confident that the pool of financial and technical resources available to the Bank and the Fund can be mobilized in this operation. I am also hopeful that the global economic environment and the availability of external financing will be more conducive in the period ahead to the success of the debt strategy as envisaged by the U.S. Secretary of the Treasury in October 1985.

The major responsibility for promoting a favorable economic environment lies with the industrial countries. Our institutions' largest members will need to follow through on their commitments, to cooperate closely to foster stable exchange rates, and to reduce existing imbalances. It is imperative that the deficit countries give priority to reducing their domestic imbalances and external deficits. Simultaneously, the surplus countries must pursue policies designed to remove structural impediments to growth and strengthen domestic demand.

I believe the industrial countries have the ability to perform the major role in containing the crisis due to their impact on the growth of the world economy. Steady growth rates in the industrial countries could be a basis for recovery of the world economy, improving the flow of international trade, and encouraging the demand for primary commodities, which are the main exports of developing countries. This, in itself, would help developing countries to

execute adjustment programs. The industrial countries are the main consumers of oil and have considerably benefited from the reduced oil prices as well as low prices for other primary commodities. It is my wish that they will utilize this advantage in such a way as to alleviate the overall negative impact on developing countries. I would draw your attention in this context to the experience of the Arab oil producing countries in the 1970s when they recycled their financial surpluses to assist investment and lending opportunities on concessionary terms to the developing countries. I believe it is now time for similar reciprocal action to be taken by the major oil consumers.

The developing countries, for their part, must create the conditions for attracting sustainable financing flows. Structural policies must be directed toward removing economic distortions and ensuring efficient resource use. Realistic prices, interest rates, and flexible exchange rates can be important mechanisms for achieving these objectives. Appropriate macroeconomic policies can help increase public sector savings, thereby freeing resources for investment. The efficient use of these increased savings is essential to strengthen growth prospects in these countries, for economic recovery depends not only on an increase in investment but also on the quality of that investment. The precise mix of policies must, of course, be tailored to the particular circumstances of each country. Furthermore, the social costs of adjustment in fragile societies must be taken into account.

The major obstacle to economic growth over the last 15 years has been the persistence of fluctuating economic conditions. Major economic indicators such as exchange rates, inflation rates, and interest rates have varied extensively in industrial countries. This has made for considerable uncertainties that have adversely affected investors' confidence and thus have hindered the growth and progress of the world economy. It also has forced the developing countries to focus on short-term adjustment measures, with consequent neglect of longer-term developmental objectives. One appreciates that attempts have been made in the last few years to contain the severity of these fluctuations, as more countries are awakening to the urgent need for cooperation and coordination of their economic policies. These signs are indeed positive, but practical steps should follow in order to minimize the adverse effects of such fluctuations in economic conditions.

Under these unstable conditions, my concern is that the adoption of protectionist policies by some countries will restrict the flow of trade and accentuate the crisis. Protectionist policies will have destructive consequences for the developing countries with debt problems, limiting their potential to export primary products and retarding their growth and productivity. Protectionism not only works against the interests of those countries most in need of a strong recovery in foreign earnings, it also acts to the detriment of the very countries that resort to trade restrictions. The perceived short-term benefits pale against its costs. I believe we all agree on the importance of rising to the challenge of

removing the obstacles and protectionist barriers that inhibit the flow of international trade.

I now turn specifically to the role of the World Bank. The past year has seen the Bank continue to play its role as the central global institution supporting the development process. The reorganization of the Bank, with all its attendant difficulties, is now virtually completed and we expect the Bank to move vigorously in addressing the increasingly complex challenges that lie ahead.

While we expect the Bank to play an expanded role in meeting future challenges, we must also recognize that the Bank could be seriously constrained by a lack of financial resources. For years we have been discussing the possibility of a general capital increase for the Bank. The need for a general capital increase has been clearly demonstrated. I am pleased to note that there is also a general agreement among member countries to proceed expeditiously with the general capital increase.

Over the past year, Bank-financed projects in agriculture, education, health, and other critical sectors have reinforced the Bank's commitment to its primary purposes: economic development and the alleviation of poverty. While projects remain the mainstay of the Bank's lending program, it is important that the Bank should continue to play an active role in implementing the adjustment with growth strategy. In this process, more attention must be paid to the possible social costs of adjustment. Also, it is essential that the IFC should continue its important role in supporting direct private investment.

The agreement reached earlier this year on IDA's replenishment of $412.4 billion was a positive sign. IDA's concessional flows are essential to support adjustment, growth, and poverty alleviation in the low-income countries, particularly in sub-Saharan Africa, where 50 percent of IDA's resources are projected to be committed.

The Fund, for its part, has a central role to play in the effort to promote international cooperation and ease the return to an expanding world economy. The Fund first must be encouraged to strengthen its surveillance role, primarily by supporting the initiative under way among the major industrial countries to improve the coordination of their economic policies. The procedures developed by the Fund for monitoring economic indicators should be aimed at enhancing policy dialogue and policy coordination. One should note, however, that the effectiveness of this process will depend on the willingness of the industrial countries to accept the responsibilities that are incumbent upon them and to abide by the principles of surveillance. As part of this effort, the Fund should attach importance to trade and structural issues and to the effect of industrial countries' policies on the rest of the world.

With regard to the developing countries and the debt problem, the Fund has a twofold responsibility: to assist, together with the Bank, in the formulation of programs conducive to adjustment with growth, and to mobilize the

resources, both its own and those from other sources, necessary to support countries' adjustment efforts.

The increased emphasis being placed on growth-oriented adjustment programs and on intensified Bank-Fund collaboration in the design and financing of these programs is a welcome development. Programs must be tailored to the specific circumstances of members, paying due regard to domestic political and social objectives, for adjustment programs can succeed only if they are technically sound and enjoy the full support of the member concerned.

The initiative to enhance the resources available under the structural adjustment facility is a welcome and timely response to the exceptionally difficult problems faced by the least developed countries, and I would hope that an enhanced SAF could be in place in the not too distant future. It is also important that the Fund maintain adequate access to its resources and implement its access policy flexibly. Additionally, there is a need for a substantial increase in quotas in order to bring the size of the Fund back into more appropriate balance with the world economy.

A resumption of SDR allocations would represent an appropriate response to countries experiencing serious balance of payments difficulties, as it could help to relieve the risks of relying heavily on borrowed reserves. I therefore urge those members that have been opposed to a renewed SDR allocation to reconsider their position.

The risks and uncertainties that I have outlined threaten to undermine the spirit of cooperation that has been built up over the years. Each of us has an important role to play in bringing about sustainable, noninflationary growth in the world economy. Our efforts will be successful only if pursued in the framework of close cooperation. There is no more suitable forum in which to agree on such intensified cooperation than these important World Bank and Fund meetings.

Finally, may I take this opportunity to thank all those working behind the scenes to make these meetings a valuable venue for important decisions on the world economy. As the result of my experience in these meetings, I must express my thanks and appreciation to all concerned. In particular, I thank the Secretaries of the Bank and the Fund, their assistants, and the staff of the Joint Secretariat of the Annual Meetings for their efforts in the preparation of this meeting and in providing assistance to all participants.

May God's Peace Be Upon You All.

PRESENTATION OF THE FORTY-SECOND ANNUAL REPORT [1]

BY THE CHAIRMAN OF THE EXECUTIVE BOARD AND MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND

M. Camdessus

It is a great honor for me to address you for the first time in my new capacity. You can, I am sure, imagine my feelings: gratitude for your trust; awe about the magnitude of the challenges we face; reassurance stemming from the caliber of the Executive Board and the staff of this institution; hope that your understanding and support will match your trust . . . . These are my feelings as I seek to build on the exceptional achievements of my predecessor, Jacques de Larosière, who will go down in history as having preserved, at a crucial moment, the international financial system. I am well aware, in facing these challenges, that success will depend crucially on effective collaboration between the Fund and the World Bank, collaboration built on many of the shared goals so eloquently set out by Barber Conable.

I will not dwell longer on my own feelings. What matters at this moment is the fact that you, the Ministers of Finance and Governors of the member countries of our Bretton Woods institutions, have come together here—at a time when one of the few things we know for certain about our future is that it will depend on the nature of your cooperation. And the Fund's ultimate raison d'être, as you well know, is to serve that cooperation.

How can we ensure that these brief meetings dispel doubts, discourage the temptation to "go it alone," and revitalize our spirit of cooperation? For this, common ground for action has to be found. And it is a task of the Fund to help find it. Allow me, therefore, to comment briefly on the world economic situation; then to elaborate on some of the key issues we face, including growth and stability in the major industrial countries, and the problems of the poorest and the most heavily indebted countries; and, finally, to say a few words on the role of the Fund today and in the future.

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What are the salient features of the current economic situation? First, two positive points: the industrial world is now completing its fifth year of

[1] September 29, 1987.

continuous—albeit, in my view, insufficient—growth, and for the time being inflation in the industrial countries remains under control. But problems persist that are daunting in their complexity.

— Economic expansion remains fragile.

— Few inroads have been made into unemployment and poverty.

— Domestic and external imbalances are unsustainably large.

— The external debt burden of the developing countries stands at a record level.

— Commodity prices have fallen to their lowest levels in real terms since the 1930s.

— The situation of many of the poorest countries defies description.

Fortunately, the map of the world is not uniformly gray. A good number of developing countries have been making major efforts to improve the efficiency and competitiveness of their economies, and last year the non-fuel exporters, taken together, were able to combine a further reduction in their current account deficit with a faster rate of growth. And some among the newly industrialized countries are now in a position to play a greater role in the global growth process. Some others, meanwhile, can be proud of the results of growth-oriented adjustment efforts that have been consistently applied. Still other developing countries, let us not forget, have avoided external crises and continue to make steady progress.

But it is also true that, as President Houphouet-Boigny pointed out, "no country can expect to be an oasis of prosperity in a desert of crisis." In fact, developing and industrial countries alike are all affected by problems that have a common source: policies that are insufficiently strong—and insufficiently structural in content—to achieve sustained growth. We are facing an interlocking complex of problems which have their roots in the mistakes of the past. This should induce in us some feelings of humility, but it should also make us determined to be clearheaded, to see the problems for what they are, and to address them universally and not simply in countries seeking to use the Fund's resources. We need better policies to be implemented on a sustained basis, and this is clear when we look at each of the three "continents" making up the special geography of the problems that face us today.

Policies in the Industrial Countries

The major industrial countries had a priority task to carry out in the first half of the 1980s: to bring inflation under control. And they succeeded. Inflation has been brought to its lowest level in 20 years, and after the deep recession in 1980–82, moderate growth has resumed and been sustained. But serious imbalances emerged, and structural rigidities of all kinds are blocking the road to more rapid growth and higher employment. These imbalances affect the

whole world, in particular through the effects on real interest rates, which are too high at present.

Looking at these countries, we find four policy imperatives:

— First, to *reduce the fiscal deficit of the United States* in line with the commitments made. This is crucial because of its impact on so many key areas: on interest rates in the United States and elsewhere; on the balance of payments of the United States and its take-up of external debt; on the credibility of efforts to stabilize the dollar—and, thereby, of the pattern of exchange rates as a whole; and, finally, on the allocation of savings throughout the world. Noteworthy success has been recorded during the fiscal year now ending, which is very much to be welcomed. But further significant progress will be needed in 1988 and beyond. As this task will be so difficult, no approach should be ruled out. All of us very much welcome the reaffirmation by the President of the United States this morning of the strong resolve of his Administration in this respect.

— Second, to *channel efficiently the savings of surplus countries*. This, of course, must not entail a repetition of the sometimes imprudent experience of the 1970s. The best safeguard is to be found in the quality of the economic policies pursued by the recipient countries through appropriate recycling, a subject to which I shall return later. Allow me here, however, to welcome the initiatives under way in this area by the Government of Japan. It goes without saying that if the surpluses remain as large as expected, further steps of this type will be needed.

— Third, to *implement more vigorous structural adjustment*, including measures to turn the tide against protectionism. The industrial countries must attend to the rigidities that have a tendency to beset mature economies. Let me simply note in this context that efforts in many countries to reconsider the role of government and policies intended to increase economic efficiency, such as deregulation, promotion of a more competitive environment, and introduction of greater flexibility in markets—including labor markets, a particular problem in Europe—are by no means in competition with social objectives. On the contrary, it seems more and more that such policies are crucial if such goals are to be secured on a durable basis.

— Lastly, but implicit in each of the foregoing, to *achieve enhanced coordination of economic policies*. This past year, with the Louvre and Venice agreements, represents a milestone. The Fund's Executive Board has warmly welcomed these agreements—particularly the effort to achieve greater exchange rate stability, and hence better conditions for growth. It believes, however, that these goals require increased efforts by all key currency countries, and that the urgency of the matter permits no delay. The current account disequilibria must be dealt with in a way that is symmetrical. Shifts in trade flows require that domestic spending in the United States grow more slowly

than domestic output for an extended period. In the surplus countries the reverse will have to continue. Japan and the Federal Republic of Germany, the major surplus countries, obviously have special responsibilities in this regard.

The role of the largest industrial countries is crucial, but they are not alone responsible for strengthening world economic growth. *The smaller and medium-sized industrial countries,* as well as the newly industrialized economies, must also formulate their objectives and policies with due regard to their international implications. By promoting greater structural flexibility in their economies, they, too, can play an important role.

Restoring Sustainable Growth in the Developing Countries

If growth can be strengthened and put on a sounder basis in the industrial countries, an important step will have been taken toward dealing with the problems of the developing world. Nevertheless, the task here remains immense, especially in those countries—whether among the poorest or in the middle-income category—where the debt problem is most serious.

Let me first address the particular problems of the *poorest countries.* I will confine my observations today to the countries that are potential beneficiaries of our structural adjustment facility (SAF). This should not be construed to mean that we devote any less attention to the others. I am thinking in particular of India and China, which in 1985 so generously decided not to exercise their rights to draw on the SAF, and I am thinking of all the others as well.

Why did I ask that the Heads of State and Government meeting in Venice be asked to support a tripling of the resources available under the SAF? And why am I asking you today? Because I have become convinced that the situation of the poorest countries is such that the only way for the Fund to continue to support strong macroeconomic policies and structural reforms in these countries—in a manner consistent with safeguarding the Fund's monetary role—is to have resources available, specifically for this purpose, that are less costly and of longer maturity than its ordinary resources. This is why the Interim Committee expressed the hope last April that the SAF would make it possible to obtain the necessary additional bilateral and multilateral support.

A tripling of resources available to the SAF will still leave the facility playing only a small role in what must be accomplished in these countries. But that role is crucial; for it is imperative that international resources to these countries—in all forms—should be employed in the context of policies designed to restore economic balance. Would it not be most efficient, the most indispensable way, for surplus countries to recycle part of their surpluses, and for all the others to contribute somewhat more to the increased solidarity toward the poorest that they all consider a matter of urgency? I am hopeful that all countries that can do so will indicate very soon their intention to contribute to this initiative. On our part, we are aiming to proceed as quickly as possible with further consultations with potential contributors in order to conclude

these discussions within the year, in line with the wish expressed at the Venice summit.

Other initiatives in related fields are also important: the World Bank's recent initiatives for sub-Saharan Africa; the reforms suggested by Mr. Balladur under way in the Paris Club to provide for better adapted maturities in rescheduling operations; Chancellor Lawson's initiative to apply lower interest rates to existing official debts; and, as far as development finance is concerned, the implementation of the IDA-VIII replenishment and a general capital increase for the World Bank. Let it not be thought that these initiatives are alternatives to each other. They are not. They are mutually supportive. And even when you have acted on all of them to the best of your possibilities—as it is my strong hope that you will—the major part of the effort for the future of these countries will still remain to be accomplished, as it must, by the countries themselves. I shall return shortly to the nature of the policy efforts required.

Let me turn now to the third continent: the *heavily indebted middle-income countries,* whose problems most of you had especially in mind when you came here this morning. Where do we stand today? Five years ago, when we met in Toronto, the debt crisis had just erupted, and the outlook was bleak. It is still full of difficulty. But we have come far. The international banking system has been strengthened; economic growth has resumed; these countries as a group have reduced their external and fiscal deficits; and many of them have moved seriously to adjust their economies. Unfortunately, in several cases, the effort has been only partial or has been prematurely interrupted.

Over the same five years these countries have, however, seen a deterioration in their terms of trade that has had a negative impact far exceeding any advantage they may have derived from the decline in interest rates. Standards of living have declined. And flows of external financing to them have been considerably smaller than they could have devoted to productive investment.

At the same time, the burden of indebtedness, far from declining, as we hoped five years ago, has actually risen. The average ratio of debt to exports in the entire group of capital-importing developing countries reached 187 percent at the end of 1986, as against 156 percent at the end of 1982.

Since then, much has been accomplished, but much clearly remains to be done. Indeed, we must acknowledge that more time than anticipated will be required to emerge from the crisis. A crisis which passes quickly is one thing. Dealing with a crisis which becomes a persistent problem is quite another.

Under these circumstances, how can we fail to understand the anguish felt by the leaders of developing countries when confronting a world in which economic activity languishes, protectionism continues to spread, interest rates rise anew, and net external financing shrinks? What must we do to ensure that our strategy remains relevant?

There is in our strategy a fundamental element that must be preserved at all cost: the principle of shared responsibility and its corollary, the duty to work cooperatively. Our strategy is a cooperative one. As Barber Conable has said, the problems of these highly indebted countries can only be overcome through a determined partnership between debtor countries and their international creditors. The four groups involved—debtor governments, creditor governments, international financial institutions, and commercial banks—have recognized that there can be no durable gain for anyone unless there are gains for all. It is a strategy in which each group agrees to make its greatest possible contribution and to accept as much risk as it prudently can in order that the effort of each will be strengthened and the external creditworthiness of the indebted countries restored as rapidly as possible. This will ultimately be to the advantage of all. There is no satisfactory alternative to this approach.

What then must be done now by the various parties involved? Each must do more and must do it better.

The *governments of all developing countries* have three key responsibilities, and these are especially pressing in the case of the heavily indebted countries. First, they have to persevere with the implementation of sound macroeconomic and structural policies for growth and external creditworthiness. This obligation is inescapable, and it is, above all, in their own interest. No country today—especially not the poorest or most indebted—can afford an economic policy that does not seek, with the greatest possible determination, to eliminate imbalances and structural rigidities. Policies which tolerate imbalances or rigidities, regardless of the reasons advanced for them, will sooner or later come back to haunt the poorest and undermine international solidarity.

The ingredients of strong reform programs are not cast in one mold. They need to be tailored carefully to the unique circumstances of each economy and to pay due regard to the country's social and political priorities. Certain basic requirements, though, are self-evident.

— Monetary and fiscal policies must combat inflation and promote the mobilization of domestic resources for the development effort.

— Interest rates must be maintained at positive levels in real terms so as to attract a sufficient flow of savings and ensure that they are put to productive use.

— The price structure, including the exchange rate, must encourage the efficient use of domestic resources and investment in activities which exploit countries' comparative advantages.

— Distorting tariffs and quotas must be removed, and outdated and inefficient structures of taxation and subsidies reformed.

Such policies, we well know, are not easy to pursue. On the contrary, it requires the greatest political courage to introduce them and to see them

through to their conclusion. This courage must be acknowledged by those who are called upon to assess programs, so that they do not, through skepticism or unrealistic demands, undermine the actions that we all support. Then, policies must be sustained. Too often have we witnessed the damaging costs of pauses in program implementation—costs that become evident when a fresh start proves more difficult than the initial steps.

A second responsibility incumbent on the developing countries—especially those that are experiencing debt problems—is to open their doors further to foreign capital investors. Is it not paradoxical that while great emphasis is laid on promoting flows of financing that do not add to debt, all too frequently there are multiple barriers to such flows?

Finally, a third responsibility for the governments of these countries is that they must do everything they can to strengthen the spirit of cooperation and thus of mutual trust. However much demagogy may beset them on all sides, they must not permit ambiguous remarks or threats of unilateral action to raise doubts about the sincerity of their commitment to a common effort to restore sustainable growth and external creditworthiness.

The unflagging commitment of debtor countries to strong policy reforms will, of course, be extremely difficult if appropriate financing is not available for their productive investment and if growth is not restored. In countries with recent debt-servicing problems, investment has dropped from more than 25 percent of GNP to 19 percent over the past five years. True, the earlier ratio included some expenditures which were not very productive. But, at the current pace, new investment in many of these countries is barely sufficient to keep the capital stock from falling, and good projects are left without financing.

Additional financing is thus urgently needed. In what amount? There is no simple formula, either as a proportion of debt repayments, or of GNP. But where we have strong growth-oriented adjustment programs, the aim has to be to leave no good, productive investment or import without appropriate financing. With such financing, the ratio of investment to GNP will be able to grow as warranted—at rates which will vary from one country to another, taking into account the quality of their investment programs, their economic situation, and the boldness of their adjustment policies. It is in this spirit that we in the Fund analyze the financing side of programs submitted to us.

Given the need for additional external financing, how could creditors do more and better?

As for *creditor country governments,* it goes without saying that the four imperatives for industrial countries to which I referred a moment ago acquire even more importance in the context of debt and development. The world needs stronger growth in the creditor countries, better balance in their external current accounts, greater stability in exchange rates, policies conducive in the long run to lower real interest rates, and a rollback of protectionism. Progress

in these areas has been made, but it is slow. It equally needs to be complemented by a strengthening of international financial institutions, an increase in official flows of bilateral assistance, and more determined efforts to harmonize divergent tax and regulatory policies which impede the assembly of concerted financing packages by their commercial banks. Without this, how can we hope to restore satisfactory growth in the developing world and solve the debt problem?

As for the *commercial banks,* their situation has significantly improved in recent years. This is welcome for them and for the world financial system. It is welcome also for the indebted countries. A sounder banking system should be able to play a more active role in supporting countries' recoveries and thus rebuilding the quality of banks' existing claims and future business. As we all know, the banks have not been inactive of late. The financing plan agreed with Argentina, for example, illustrates that cooperative action among creditors and debtors can speed up procedures and expand what has come to be known as the "menu" of options offered.

The use of such techniques is essential, but I share the view of those who doubt that they will provide a full answer. Equally, though, I remain convinced that the basic answer continues to lie in cooperative actions. And I believe that for the banks to play fully their essential role in this strategy—and in their own longer-term interest—they will have to do more and do it better.

— First, the spirit of innovation that has pervaded the international capital markets needs also to permeate the area of bank debt restructurings. I see two broad guidelines for new approaches. They should be freely negotiated between debtor and creditor, and they should be market based. Departure from these principles would only delay rather than hasten the resumption of voluntary financial flows to countries that are on their way to restoring creditworthiness. The present market in sovereign debt is segmented and imperfect: the prices quoted send unclear signals to debtor and creditor alike. I would welcome the emergence over time of a broader and more transparent market—one that would reflect the changes in the credit standing of countries and lay the basis in due course to tap a wider pool of financing. No approach should be struck from the "menu" of financing options as long as it meets these conditions. Consistent with this, I would hope that the nature of negotiations among banks can evolve to accommodate greater diversity and not converge on a "lowest common denominator."

— Second, banks should be prepared to provide greater financing. The increase in banks' net exposure in developing countries since the launching of Secretary Baker's initiative in October 1985 has been very modest. While in some cases this has reflected problems of policy implementation, in others it has reflected delays or shortfalls in the provision of warranted financing. It is important that there should be no question about the willingness of the banks to respond promptly by providing the moderate amounts expected from them to support good programs.

— Third, it would be most helpful if banks approached the problems of small countries and medium-sized countries in the same spirit and as promptly as they do those of large countries. One major negotiation should not be allowed to delay one or several other negotiations.

— Fourth, and finally, let me urge that decision making be speeded up. The delays which we have often seen only hamper the implementation of adjustment programs and undermine progress toward the restoration of creditworthiness. It is indefensible that in some cases, while far-reaching adjustment programs have been adopted with the international community's support, inordinate delays on the part of certain smaller banks frustrate the completion of financing arrangements by governments and international financial organizations. International cooperation must not be paralyzed in this way.

The Role of the Fund

I would like now to turn to the role of the Fund. In a sense, this has been implicit in much of what I have already said. Let me now only highlight certain areas of key importance.

First, I believe that the Fund has a crucial role to play in strengthening multilateral mechanisms of cooperation that can promote faster world economic growth and a stable international monetary system. The Louvre and Venice agreements have opened up new areas for cooperation in which the Fund is invited to play an important part. It will do so by providing the major industrial countries with a frank evaluation of their economic policies, through the use of indicators; by drawing the attention of each of these countries to the impact of its actions on other countries; and by seeking to ensure that the interests and aspirations of the rest of the world are taken into account. We have, with the indicators, a means of giving sharper focus to the analysis, providing a benchmark against which policy recommendations can be made more persuasive, and thereby enhancing the effectiveness of multilateral surveillance, for the benefit of all.

Second, the Interim Committee in its meeting two days ago reaffirmed the Fund's central role in the debt strategy. This is a role the Fund must play, working closely with the World Bank and continuing to adapt flexibly to the changing needs of its member countries, while adhering firmly to the principles which guide its actions under its Articles of Agreement—in particular preserving its nature as a monetary institution. What does this entail?

— That the Fund assist countries in designing economic programs, monitoring their implementation, and, if necessary, explaining them to the international community—which rightly considers there to be no finer guarantee for external financing than the appropriateness of economic policies.

— That the Fund help mobilize financing flows from other sources, and work with the other parties to the strategy to help ensure that such flows and financial relief are adequate to sustain the resumption of growth.

— That the Fund also stand ready to contribute financially itself. In the current economic climate, the Fund's own financial involvement in the implementation of the debt strategy has to remain sizable. It is possible, in fact, that greater use of Fund resources will be necessary than contemplated earlier. It is thus all the more essential that we fulfill our duty to be rigorous. It also goes without saying that we must continue to exert all energy to ensure that obligations to the Fund are discharged on time and in full; arrears are totally unacceptable in a cooperative monetary institution like the Fund. This does not mean, however, that when times are tough we should confine ourselves to collecting on our claims and burying the money in the strong box. When I drafted the original version of this speech, in my maternal tongue, using the language of my ancestors who were farmers at the foot of the Pyrenees Mountains, I wrote "burying the money at the bottom of the garden." And I know that in Spain it would have been said, *"debajo del colchón,"* "under the mattress." This is certainly the difference between a rural and an urban culture, but indeed I obey the urban culture of the translators. Burying the money in the strong box in this environment is wrong. We cannot be oblivious to the payments needs of countries pursuing strong policies that merit continued support. That would run counter to the intentions of our founders and the interests of all our members.

Among the Fund's basic instruments for fulfilling these three aspects of its role—helping members with the design and implementation of their adjustment programs, mobilizing financial flows from other sources, and providing its own financial contribution—are its financial facilities. For the low-income countries, the SAF has a particularly important role to play. For our membership at large, the extended Fund facility was designed to provide financial assistance over a longer period to members engaged in structural adjustment, but has been used little in recent years. It has, I believe, the potential to be used more, and we will need to see what can be done to revitalize it. High on the agenda also, as the Interim Committee has pointed out, is a review of the compensatory financing facility.

The Fund must stand ready, in reviewing its procedures and its approach to program design, to draw on the lessons that recent experience has taught. One such lesson, perhaps, is that it often takes more time now than in earlier "traditional" balance of payments crises to achieve a lasting recovery. Another is that unexpected external developments beyond the control of the authorities can have disruptive effects on carefully elaborated and steadily implemented adjustment programs. In such cases, appropriate contingency mechanisms are worth considering. Yet another is that in certain cases our conditionality might lose nothing of its rigor, and indeed could gain in effectiveness, if it were predicated on a smaller number of essential variables with somewhat longer time frames. Ten years have passed since the Fund last reviewed in comprehensive fashion its policies on the conditional use of its resources, and it is time we reviewed them again. We will be doing so in the months ahead. The

work of the Group of Ten and the Group of Twenty-Four provides an important input to this process, and the new Report of the Group of Twenty-Four has been received with great interest. We have recently had a preliminary discussion in the Executive Board of these reports, and the Board has committed itself to rapid study of the suggestions they contain.

At the same time that we seek to nurture the major cooperative effort required to help overcome the debt problem, we must also attend to a number of other vital tasks.

The Fund must continue to strengthen its cooperation with two organizations. The first is the World Bank. Whatever the developing country, this cooperation goes on daily at all levels. As Barber Conable said earlier, the Fund and the Bank have a long history of collaboration on which to build. In this regard, I count myself fortunate to benefit from such close and cordial relations with him, and you may be assured that we will continue to deepen the process of cooperation.

The second organization is the GATT. Protectionism is a growing and progressively more harmful obstacle to growth-oriented adjustment. It is my conviction that it threatens to undermine a considerable part of the hard-won fruits of adjustment. Throughout the world it is wiping out the economic advantages of efficient resource allocation and complicating the problem of reducing payments imbalances. At another level, it is poisoning the international dialogue. We have at hand, within the framework of the Uruguay Round, the means to reverse this disturbing slide toward trade restrictions of the most varied kinds. Some perhaps will feel shy or skeptical because of the magnitude of the task in this field. . . . I suggest that they read the remarkable lecture given by Sylvia Ostry two days ago on the occasion of the annual Per Jacobsson lecture. It will be very comforting to them. We will do our utmost to ensure that the efforts of the Fund and the GATT are mutually reinforcing.

It would be remiss of me to speak of the Fund's support for its members in the present difficult world environment without touching on the implications for the Fund's own financing. In this regard, I am pleased that the Group of Ten has indicated its readiness to renew the General Arrangements to Borrow. This is a welcome decision, for if the Fund is to respond flexibly and imaginatively to the problems we face today, it cannot do so without the firm commitment and financial support of its member countries.

Looking ahead to the future, it is our duty, in the same context, to pursue our work on the Ninth General Review of Quotas. For anyone who believes that the early 1990s may be no less difficult than the present years, it would be imprudent not to strengthen the Fund in readiness by expanding it at least in proportion to the expansion of the world economy, and to base its financing again on quotas and not on borrowed resources. This is an issue that cannot be avoided. This is why I have proposed that a substantial increase in Fund quotas be considered. It is a matter of importance that this work proceed rapidly.

A second area of work for the future is to intensify our efforts to achieve a more efficiently functioning international monetary system. Closer policy coordination is a first step toward a better international monetary order. A good deal of progress has been achieved in the last few months, and via the best method available; I mean pragmatism and constructive experimentation. At the same time, this should not preclude more general work on the international monetary system. While it would be unreasonable to rush ahead, it would be every bit as irresponsible not to be prepared to move forward when circumstances once again were favorable. That is why I am planning to give priority to examining the international monetary arrangements that are in the process of developing and the role that might be played in this process by the SDR—which, I remind you, our Articles of Agreement would make the principal instrument in the international monetary system. This work should enable me, at some appropriate future date, to provide the Executive Board, at its request, with a number of carefully thought-out initial considerations. Meanwhile, strengthened cooperation will, I trust, have been enhanced by further fruitful experiences.

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These are the tasks before us. I have spoken to you today about boosting growth everywhere, but on a sound basis so as not to repeat the mistakes of the past. This is surely the path we have to follow in order to surmount our difficulties, particularly those of the poorest. It will require the resolute pursuit of good economic policies, cooperation among all parties, and the sharing of risks. I have proposed none of the things that our world has seen in the past and some still demand of us today—namely, unconditional, plentiful financing; unsustainable rates of growth; reliance on financing that was at times thought to be virtually risk free; and an IMF less daily involved in burning issues. This climate existed in the past, and at times it may seem a lost paradise. It was, though, a "paradise" with a dark side, for many of our present difficulties stem directly from that period. Let us turn our eyes to the future and look to the task before us. It is a difficult task, to be sure. But let us remember that many countries are taking steps to adapt to new times, and let us build on this. Let us also remember that no crisis fails to yield some opportunity. Indeed, let us seize the opportunity that the present situation offers: the opportunity to build a more trusting, more solid, and more active cooperation.

DISCUSSION OF FUND POLICY AT SECOND JOINT SESSION [1]

REPORT TO THE BOARD OF GOVERNORS OF THE INTERNATIONAL MONETARY FUND BY THE CHAIRMAN OF THE INTERIM COMMITTEE OF THE BOARD OF GOVERNORS ON THE INTERNATIONAL MONETARY SYSTEM

H.O. Ruding

I have the honor of reporting to you in my capacity as Chairman of the Interim Committee on its two meetings since this Board of Governors last met a year ago. At both meetings, considerable discussion was devoted to the world economic outlook, use of selected indicators in Fund surveillance, and the situation of the heavily indebted member countries. Other subjects to receive attention included the question of an SDR allocation, access limits for the use of Fund resources in 1988, the Ninth General Review of Quotas, and the Managing Director's initiative for enhancement of the structural adjustment facility (SAF). As the principal conclusions of these two meetings are contained in their respective communiqués, I shall be brief and touch upon only some of the more important points.

World Economic Outlook and Fund Surveillance

In assessing the performance of the world economy, Committee members noted certain positive features: the economic expansion, now in its fifth year, continues without signs of cyclical strains; inflation has remained moderate; payments imbalances among the larger industrial countries have begun to decline in real terms; and economic growth in the non-fuel exporting developing countries is improving. Nevertheless, in certain other aspects, performance is falling short of expectations: unemployment, with its attendant economic, social, and human costs, is still high in many industrial countries; the persistence of large current account imbalances in some industrial countries is a matter for concern; the predicament of the heavily indebted middle-income countries remains difficult; and the desperate plight of low-income countries, especially those with declining per capita incomes, continues to be a matter of grave concern. Furthermore, although commodity prices have recovered a little of late, they remain historically low in real terms.

[1]September 29, 1987.

Committee members welcomed the reduction in the U.S. fiscal deficit, were pleased by the recent decision of the President of the United States reaffirming the resolve to carry this process further, and noted that continuing such reduction in 1988 and beyond was necessary to facilitate external adjustment without harming capital formation. It was stressed that countries with strong external surplus positions, price stability, and moderate government deficits needed to ensure that domestic demand grew faster than their GNP. Some newly industrialized countries were also urged to play a greater role in the global adjustment process.

Committee members expressed concern over the worsening environment for international trade. They noted that macroeconomic imbalances contributed to protectionist pressures, which was all the more reason for correcting them as rapidly as possible. But trade restrictions provide no solution. On the contrary, by inviting retaliation, they are likely to damage employment prospects internationally and worsen economic welfare. The Fund should therefore continue to do its utmost to support the GATT. The Committee also stressed the importance of early and decisive progress in the ongoing Uruguay Round.

The Committee welcomed the significant improvements accomplished during the past year in the international coordination of economic policies, particularly among the major industrial countries. In its consideration of ways to strengthen the process of policy coordination and multilateral surveillance, the Committee welcomed the application of key indicators in the Fund's world economic outlook exercises and asked the Executive Board to pursue its work on extending the use of indicators in the context of its surveillance responsibilities, both in its reviews of the world economic outlook and in Article IV consultations with members. They encouraged the Executive Board to develop criteria that would be helpful in assessing the sustainability and desirability of the evolution of a limited set of key economic variables. In this connection, the Committee noted the importance of stable exchange market conditions and welcomed the progress made since the Louvre accord.

Debt Issues—Middle-Income Countries

In the discussion of the situation of the heavily indebted middle-income countries, members observed that while significant progress had been made away from the crisis environment of five years ago, considering the uncertainties in the current economic environment and the uneven adjustment experience of many indebted countries, satisfactory resolution of debt problems was going to require cooperative efforts and perseverance over the long haul by all concerned. A supportive international economic, financial, and trade environment is clearly necessary for the debt situation to remain tractable. At the same time, if debtor-creditor relations are to return to normal, it is essential that the indebted countries follow policies to restore macroeconomic balance, to enhance growth prospects, and to induce a reflow of private capital.

Committee members believed that the case-by-case approach continued to be appropriate, as it was the only approach that permitted the tailoring of adjustment programs and financing flows to the circumstances of each country. They also remarked that unilateral initiatives carried heavy risks for all parties in the strategy. In light of these considerations, members reaffirmed the Fund's central role in helping members to formulate growth-oriented adjustment programs and in mobilizing finance. They also welcomed the continuing close cooperation between the Bank and the Fund, especially in their structural adjustment lending.

The Committee noted with satisfaction that financing arrangements negotiated between debtors and creditors have recently included diversified features and particularly welcomed the emergence of more eclectic solutions incorporating mutually agreed market-oriented approaches. It also encouraged the trend toward a broadening of financing options and, in that regard, took particular note of the emergence of various forms of securitization and other mechanisms that do not add further to the stock of debt. The Committee again stressed that sound adjustment programs in heavily indebted middle-income countries, particularly some of the smaller ones, could be jeopardized if there were delays in the provision of adequate commercial bank financing on appropriate terms.

Situation of Low-Income Indebted Countries

Committee members expressed deep concern about the critical situation facing many low-income countries. They were encouraged by the progress of operations under the structural adjustment facility, which was established last year specifically to provide balance of payments assistance on concessional terms to needy low-income countries. Sustainable growth in such countries can be achieved only through comprehensive programs of macroeconomic and structural reform, and the Committee noted with satisfaction that the policy framework papers, which are developed jointly with the World Bank in conjunction with the SAF, are making a key contribution to the design and monitoring of such programs. The Committee also welcomed the increased emphasis on support for policy reforms by bilateral and multilateral donors.

The Committee recognized that adjustment policies in these countries, to be fully effective, need to be supported by exceptional assistance on concessional terms. It also recalled that it had expressed the hope that arrangements under the SAF would attract additional financial support. In that 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 others under consideration elsewhere in the international community, particularly in the World Bank. The Committee welcomed the progress achieved thus far, including the exploration of appropriate financial modalities consistent with the monetary character of the Fund, and asked the

Managing Director and the Executive Board to proceed as quickly as possible with further consultations with potential contributors, in order to conclude those discussions within this year.

The Committee welcomed the longer grace and repayment periods extended to some low-income countries in recent Paris Club reschedulings and noted that the possibility of applying lower interest rates to existing official debts under appropriate circumstances was under consideration. It welcomed the conversion of official debt into grants, and measures with similar effects, by certain creditor countries for the poorest in this group and encouraged other official creditors to follow that example.

Fund Policies Concerning Quotas, Access Limits, Conditionality, and the SDR

The Committee noted that the Committee of the Whole on the Ninth General Review of Quotas had begun its work by considering preliminary quota calculations and reviewing issues bearing on the size of the Fund. The Committee urged the Executive Directors to pursue their work on the quota review with a view to making appropriate recommendations in due course.

The Committee reaffirmed the temporary character of the enlarged access policy. In view of the difficult balance of payments positions of many member countries and the prospect of continuing sizable payments imbalances, the Committee agreed that the policy should continue to be in effect in 1988 and that the present access limits under that policy should be retained in 1988. As regards access limits under the special facilities, the Committee requested that the Executive Board's review of the compensatory financing facility be completed before the Committee's next meeting and agreed that, for the time being, the access limits under the special facilities would be maintained. Action to implement the above agreements reached in the Committee is to be taken by the Executive Board before the end of the current year.

The Committee welcomed the Executive Board's decision 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 guidelines on conditionality need to be re-examined in light of changes in the economic circumstances of member countries that have taken place since 1978–79, when these guidelines were adopted.

The Committee also welcomed the recent report of the Group of Twenty-Four on the role of the Fund, 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 report and requested that a status report be submitted for consideration at the Committee's next meeting.

On the question of SDR allocations, the Managing Director reported to the Committee that the broad support necessary for a resumption of allocations had not so far emerged. It was agreed that the Executive Board would continue its examination of the issues and would also continue its examination of the functioning of the SDR, with a view to enhancing its attractiveness as a reserve asset under current international monetary arrangements.

The next meeting of the Committee will take place on April 14, 1988, in Washington, D.C.

STATEMENT BY THE GOVERNOR OF THE BANK FOR DENMARK

Palle Simonsen

Since Denmark currently holds the Presidency of the Council of the European Communities, I have the honor to address you in the name of the member states.

World economic developments over the past 12 months have not lived up to initial forecasts. In the course of the winter of 1986–87 there were signs of weakening in demand and production in several industrial countries. A clear sense of uncertainty was noticeable during this period. If sustained, it would likely have negative effects on the world economy.

However, we have seen signs that both demand and production are now again on an upward trend. Although the decline in energy prices has been partially reversed in 1987, we think that price developments so far have been encouraging. Nevertheless, it is worrying that, both within the European Community and in most other industrial countries, we are still faced with a rate of unemployment that is too high, with a rate of new productive investment that is still inadequate, and with large current account imbalances in the major industrial countries that are, however, declining in real terms.

Against the background of the very substantial adjustment of exchange rates that took place in 1985 and 1986, the agreement reached in Paris in February, which was subsequently supported by the April meeting of the Interim Committee of the Fund and by the Venice summit in June, proved timely and successful. It has contributed to a better functioning of the international monetary system, especially because it was backed by domestic policy commitments.

As was stated in the Paris meeting, preconditions for exchange rate stability and more balanced global growth are that the policies announced by the major countries be fully implemented and that economic policy coordination be intensified. In this context, we welcome the greater use of indicators as an

instrument of multilateral surveillance to promote international economic policy coordination.

In parallel with the international efforts to achieve a higher degree of exchange rate stability, we have at the European level agreed upon a further strengthening of the European Monetary System. We feel that developments since early 1987 have been satisfactory, and we are presently improving our cooperation in the monetary field even further. In line with the approach followed within the Fund and in Venice in June, we are planning to make increased use of indicators in our internal surveillance activities. This will be aimed at improving the convergence of economic fundamentals within the Community.

We find developments so far in the Uruguay Round satisfactory, but much needs to be done to successfully conclude the preparatory phase by the end of this year. The European Community intends to participate constructively in these negotiations. We are very concerned about the pressures for increasing protection while the trade negotiations are still in progress. One particularly difficult and sensitive subject in this context is the question of international trade in agricultural products. Almost all countries bear some responsibility for current problems. Within the European Community we are aware of our responsibilities in this field.

We welcome the satisfactory conclusions of UNCTAD VII, which have led to a common evaluation of the international economic situation and to a willingness to strengthen the efforts of the international community.

Turning now to the debt strategy, the member states feel serious concern about the debt problems facing the poorest countries, particularly in sub-Saharan Africa.

The member states of the Community remain committed to the case-by-case approach that assures the best possibilities of taking into account the special circumstances of different indebted countries. While this strategy has served all the parties concerned well, it has also been evident for some time that it needs reinforcement and that all its elements have to be implemented more effectively.

Viewed against this background, some positive developments have taken place since the meeting of the Interim Committee in April this year, in particular in regard to the poorest countries, and, among these, primarily the sub-Saharan African countries. Intensified deliberations in the Paris Club have already resulted in longer repayment and grace periods with respect to rescheduled official credits for certain countries in support of their far-reaching economic reforms. Proposals for lower interest rates have been put forward. However, the outlook for these countries remains extremely bleak.

An important new development is the proposals by the Managing Director of the Fund for a substantial increase in the resources of the Fund's structural

adjustment facility (SAF) over the three-year period 1988–90, to be associated with the adoption of strong growth-oriented adjustment programs by low-income countries in close collaboration with the World Bank.

The member states of the Community welcome the principles underlying these proposals and, despite some difficult issues which are not all purely technical, share the willingness to conclude discussions on these proposals by the end of this year. In the context of this facility, collaboration between the Bank and the Fund will be important for the envisaged catalytic role of the facility to materialize.

Primary product exporters, particularly those dependent on a single commodity, deserve special consideration. It may be appropriate to make adequate resources available to them on concessional terms.

As far as the middle-income debtors are concerned, there have been further useful innovations broadening the range of procedures and financing techniques by commercial bank creditors, which hopefully will facilitate the assembling and implementation of financial packages. However, the process of normalizing debtor-creditor relations so as to regain normal market access is inevitably taking a long time. Although progress has been made by several countries, the perseverance in adjustment policies in some debtor countries has not always measured up to what is needed. Also, financial flows to the developing countries have fallen short of expectations.

All parties involved must make further progress in a cooperative spirit for the full implementation of the debt strategy, including the vital support of private financing, both by the banks and in the form of non-debt-creating capital flows to debtor countries.

The member states of the Community continue to take the view that the resources of the Fund should predominantly come from quota subscriptions. For the Fund to be able to continue to play a central role both in the adjustment process and as the global monetary institution, it will be important that the Fund have sufficient usable resources. Therefore, we welcome the Executive Board's initiation of discussions on the Ninth General Review of Quotas. The member states of the European Community will participate constructively.

The member states of the Community adhere to the view that the Fund's enlarged access policy is a temporary facility. However, in view of the continued payments imbalances and difficulties in several member countries, we welcome the agreement reached in the Interim Committee on an unchanged continuation of that policy for 1988.

The member states of the European Community also look forward to the results of the ongoing review of the compensatory financing facility.

Over the past couple of years, there has been increasing cooperation between the Fund and the World Bank, in particular with respect to the poorest developing countries in solving their economic problems . . . .

The member states of the European Community feel strongly that special and innovative measures are called for to help debt-distressed countries in sub-Saharan Africa undertaking rigorous policy reform. The World Bank, together with the Fund, has an essential role to play in promoting and coordinating these measures. We therefore welcome the increased emphasis on these issues as recently reflected in the Bank's effort for additional financing from the donor community in order to assist the sub-Saharan countries' own efforts in tackling their problems . . . .

Statement by the Governor of the Fund for France

Edouard Balladur

This year's Annual Meetings of the World Bank and the International Monetary Fund should, in my view, mark a special stage in international cooperation: The strategy of cooperation instituted by the Louvre agreement represents a genuine success and, in my opinion, gives encouragement to those who, like myself, believe in the need to restore a more stable international monetary system.

The debt strategy adopted in Seoul must be pursued and adjusted. In this regard, I call upon the international community to give the multilateral institutions the means to cope with their task.

What is the state of the world economy? Inflation is again at a very low rate and seems unlikely to accelerate. We have had more than five straight years of growth, although the growth rate has fallen to a level which I deem too low. World trade is expanding, but inadequately. The trends in the developing countries are highly uneven, ranging between the two extremes of remarkable growth in the newly industrialized countries of Asia and intensifying difficulties in the poorest African countries south of the Sahara.

To help improve the world economic situation, both the industrial countries and the developing countries have a part to play.

The contribution which the major industrial countries can and must make lies, first of all, in consistent application of the cooperative strategy set forth at the Louvre in February and repeatedly confirmed since then. We have already seen the results in terms of exchange rate stabilization, and that is no small matter considering the risks of inflation and recession which a dollar slippage would impose on the world economy. The studies prepared by the Fund bear this out. This success, in my view, confirms our ability to organize and manage an orderly monetary system. It is necessary, of course, for the largest countries to demonstrate the will to cooperate through sound and compatible economic policies. France, which, you will recall, has always supported this view, is more convinced of it today than ever.

We must naturally continue along this path. The major industrial countries have just confirmed the Louvre agreement. This means that each of them must provide itself with the means to honor its commitments. To this end, it is necessary to continue to reduce deficits where needed and to favor high levels of growth in the surplus countries.

I would also stress the need to avoid another rise in interest rates, which would place a hurdle in the way of our hopes for growth and would severely burden the indebted countries.

These efforts are vital if we are to avoid the worst of all solutions—resorting to protectionism. The temptation is there; we must resist it. My country attaches great importance to the new round of trade negotiations launched a year ago at Punta del Este. These negotiations will be lengthy and difficult, but they are crucial for the strengthening of the multilateral system. They will have to cover all aspects of trade, while preserving their global nature. France, which will consistently strive for this balance, will contribute fully to these negotiations.

I turn now to the developing countries. As a whole, they are pursuing rigorous recovery and adjustment programs with determination. But they must persist in their efforts in order to promote an in-depth strengthening of their economies and lay the groundwork for a return to lasting, balanced growth. Let us not delude ourselves: the adjustment process will be long. But, in return, the international community must give solid backing to the recovery effort. How can we expect sacrifices of some if the rest of us are not willing to make any?

It is therefore vital that we mobilize adequate financial resources for development. This is not happening today. These resources can be provided mainly by the multilateral institutions. However great the efforts—often underestimated—made by the Paris Club and international commercial banks, however great the effort made to attract private capital, only the multilateral institutions, especially the Bretton Woods institutions, are in a position to make sufficiently rapid, meaningful, and large contributions. But what is actually occurring? The net contribution of the Fund is becoming negative and the lending capacity of the World Bank is approaching exhaustion.

This situation cannot go on. The international community must urgently take further steps to demonstrate its commitment. I shall limit myself at this point to stressing the following areas for priority action . . . .

With respect to the Fund, its Articles provide that a decision on the Ninth General Review of Quotas must be made by March 31, 1988. I feel that a substantial increase is needed, one that would enable the capital of the Fund to keep pace with the world economy. Since 1965, the Fund's capital has been reduced by half in relation to world production, and by two thirds in relation to world trade. The Fund's financing must continue to be based chiefly on quotas,

not on borrowing. This is necessary if its assistance is to be on more attractive terms than those offered by the market.

The Bretton Woods institutions must also adapt their activities to the needs of the poorest countries; this is a priority of the international community. The approach most appropriate to their needs rests on a substantial increase in the long-term resources available to them on highly concessional terms.

The proposal of the Fund's Managing Director for a tripling of the structural adjustment facility is certainly the most significant initiative of those to which we must react. It meets some of the objectives of the proposals I made in April, and I regard it as a priority. My country therefore supports it fully and indeed expects to see it adopted by the end of the year. I can assure you that I shall work toward this end, and I hereby announce that France is prepared to devote at least $500 million to it over the next three years . . . .

The debt consolidation effort in the Paris Club must also be pursued. I am pleased to note that an extension of rescheduling periods has now been applied to the very poor, highly indebted countries which are engaged in adjustment efforts.

With respect to the objective of a reduction in interest rates on existing debt, a consensus on two steps which would have an immediate impact should not be beyond reach. First, concessional rates on rescheduled development assistance loans should be systematically applied, and, second, the margins charged by creditor countries over the cost of their borrowed funds should be reduced, or even eliminated, on consolidated commercial credits.

This reference to the Paris Club naturally leads me to bring up the case of the highly indebted middle-income countries. A moment ago I mentioned how important it is to strengthen the Bretton Woods institutions, whose resources are a key element in the process of balance of payments adjustment for these countries.

But efforts to mobilize commercial bank financing and to expand private investment are no less essential. Progress has been made, for example, with the idea of "menus with options," which I personally hope will be as diversified and as imaginative as possible, provided that the fundamental principle of freedom of choice for banks is upheld.

I cannot conclude without reiterating how concerned I am with the trend in commodity prices. The drop in prices has been so sharp and persistent that it seriously jeopardizes the economic potential of many developing countries and raises doubts about whether the courageous adjustment efforts they have undertaken have any chance of success. That is why I deem it crucial for the international community to strengthen its activities in this area. The review of the compensatory financing facility we have agreed to will give us an excellent opportunity for reflection.

All of us know how attached France is to the effective launching of a common fund for commodities. I hope that this fund will soon be established. It will then be necessary to look realistically at the procedures for using its resources. I also think that the World Bank must play an active role in this area.

Those, then, are the principal concerns guiding my country. I shall conclude by appealing to the imagination and generosity of the international community as a whole, so that further progress may be achieved. You may rest assured that France, for one, will continue to do its utmost to work toward this goal.

Statement by the Governor of the Fund for China

Chen Muhua

I congratulate Mr. Abdul Karim on his election as Chairman of the current Annual Meetings and wish the meetings every success under his wise guidance. This is the first time I have participated in the Annual Meetings of the World Bank and the International Monetary Fund in my capacity as Governor of the People's Bank of China and Governor of the Fund for China. It gives me great pleasure to have this opportunity to exchange views on major issues with my fellow distinguished Governors at this international gathering.

Now please allow me to address some of the major issues confronting the current Annual Meetings.

World peace and development are genuinely desired by people throughout the world, and the achievement of these two goals deserves our unwavering devotion. Unfortunately, however, matters of concern and uncertainty still exist in the current world economic situation. Economic growth in industrial countries has continued to be weak, and external imbalances among the major industrial countries have stayed at historic highs. Exchange rates between the major currencies have remained volatile. Trade protectionist practices and sentiments are being intensified. Financial flows to the developing countries have dwindled and, in some cases, even been reversed. Many countries in this group are still hindered by heavy debts, and economic growth for them is therefore extremely difficult—even after strenuous and austere adjustment. The gap between rich nations and poor ones, far from being narrowed, is—if anything—being widened.

The international community has become increasingly aware of the interdependence of nations' economic development and prosperity. Based on this awareness and in order to facilitate global economic growth, the industrial countries must provide necessary assistance to the developing countries. And

this assistance should, of course, be mutually beneficial and promotive. After all, the industrial countries would not be able to develop further, and tensions and strife would remain a permanent part of the international economic situation if they pursued only immediate self-interests and disregarded the interests of the developing countries.

An early reversal of the unfavorable world economic situation requires concerted efforts by both the industrial and the developing countries, with promotion of economic growth and resolution of the debt problem regarded as the most important objectives. To this end, the industrial countries should bear a greater responsibility, since their economic positions are much stronger than those of the developing countries in the world economy.

First and foremost, the major industrial countries should intensify efforts in policy coordination, in accelerating economic growth, in eliminating external imbalances, in pursuing active and symmetrical economic adjustment, and in stabilizing the exchange rates. When formulating economic policies, they need to bear in mind their responsibility to the international community and the impact they have on the interests of the developing countries.

In the meantime, industrial countries should roll back trade protectionism, particularly protectionist measures against export products of developing countries, so that conditions can be created conducive to the latter's expansion of exports, economic development, and solution to the debt problem.

It has been our consistent view that the solution to the debt problem lies in the economic development of the debtor countries, and that debtors, creditors, multilateral financial institutions, and commercial banks should bear common responsibilities, engage in dialogues, and explore reasonable and realistic solutions through expanded channels. A solution to the debt problem would only be possible when the objective of economic development and an increase in the export earnings of the debtors are realized. The practice of servicing debt at the expense of development leads nowhere. What is more important right now is to find ways to alleviate the debt burdens of debtor countries by every possible means to at least allow them some breathing space. At the same time, debtor countries should formulate correct economic adjustment policies based on their specific conditions so as to facilitate stable and healthy economic development and create favorable conditions for repayment of their debts.

The plight of the sub-Saharan African countries merits closer attention by the international community. In view of the gravity and urgency of their problems, the Development Committee at its April meeting this year requested the World Bank and the Fund to submit to the Annual Meetings a Program for Special Action aimed at a solution to their problems. We are pleased to see that a tentative program has been worked out and has been supported by the countries concerned. It is our view that many of the proposals therein are positive and practicable; therefore, we would give our support and hope to see

an active response from those same parties so that action can be undertaken quickly.

The World Bank and the Fund have, ever since their inception, been entrusted with the important task of promoting international economic cooperation, world economic growth, and financial stability. During the past decades, these two institutions have carried out their work effectively, and experience has shown that development and vitality have been enjoyed by the two institutions whenever they have adapted to changing circumstances, have been flexible with adjustment policies, and have been responsive to the trends in international economic development—particularly to the needs of the developing countries. Otherwise, they could lose their dynamism, leading to damage to their images.

In recent years, the Bank and the Fund have played a positive role in resolving the debt problem and in providing financing to the developing countries. Nevertheless, in comparison with the responsibilities that the two institutions are supposed to undertake and with what they have been expected to accomplish, the roles of the two multilateral financial institutions have not been brought into full play and there still are great potentials to be tapped. Of course, the catalytic role of the Bank and the Fund is important, but that in no way suggests we should overlook the capacity and the responsibilities of the two institutions in direct financing.

In our view, one of the most pressing needs confronting the Bank and the Fund is to strengthen their ability to finance, so that they can face the challenges ahead and play a more effective role in assisting their member countries. We are pleased that this issue has been placed on the agenda for the current Annual Meetings. Regarding the Fund, the size of its quota is far from meeting the needs of the world economy. The increasing reliance of the institution on borrowed resources during the past few years has raised the cost of borrowing by developing countries. From a long-term point of view, this reliance, if not reversed, could affect the nature of the Fund. With this in mind, we favor a substantial increase in Fund quotas in the Ninth General Review, and we believe the Ninth General Review should be completed in a fair, reasonable, and timely manner, taking into account the interests of all parties. This would promote sustainable world economic growth and sound development of the international monetary system.

Meanwhile, the Fund should resume the allocation of SDRs during the Fifth Basic Period as soon as possible. This is absolutely essential to alleviate difficulties in the world economy, to supplement international reserve assets, and to enhance the role of the SDR. Unfortunately, a consensus has not been arrived at, primarily because of the opposition of a few countries. We urge those countries opposing allocation to reconsider their positions so that resumption of the SDR allocation can be effected . . . .

Apart from strengthening their actual base of financing, the Bank and the Fund—to better undertake their responsibilities—must also enforce adjustment in formulating policies of conditionality and in designing economic adjustment programs. In this connection, we regard as desirable the special action aimed at helping low-income countries and the initiative to enhance the structural adjustment facility (SAF). It is our hope that strides toward progress will be larger and more active and that they will be seen by the international community—and especially the developing countries—as a genuinely supportive force in international economic cooperation.

Now I would like to turn briefly to the economic development of China. It has been nine years since we launched all-encompassing reform and began opening our economy to the outside world. At that time—in 1979—our main focus was on economic reconstruction. Since then, China has enjoyed political stability and unity, sustained and coordinated economic development, and enhancement of socialist democracy and of the legal system. Productive forces have been emancipated to a great extent, and the standard of living has improved markedly, with the food and clothing problems largely solved for our population of about one billion.

Compared with the pre-reform period, four growth rates have doubled, that is, the gross value of industrial and agricultural ouput; gross national product (GNP); fiscal revenue; and per capita income. Import and export volumes have tripled. In the last nine years, China has experienced the best economic performance, the fastest growth in economic power, and the highest standard of living for the people since the founding of the People's Republic.

Experience has proved that the reform and opening have provided a powerful impetus to our work in all aspects. These policies have gained the full support of the mass of the people and shall not, and cannot, be changed. It is our firm determination to carry out these policies for many, many years to come. China is right now still at the elementary stage of socialism. And the main conflict of this stage is that between the ever-growing material needs of the population and the backwardness of the social productive forces.

In 1979 we formulated a basic strategy of economic development, taking fully into account our national characteristics. The strategy consisted of three steps: first, to double GNP and solve the basic problem of food and clothing within ten years; second, to improve living standards by quadrupling GNP by the end of this century; and third, to catch up with the medium-level developed countries in terms of per capita GNP and standard of living by the middle of the next century.

So far, we have achieved our goal for the first step. We are now working for realization of the second. Although we are confronted with numerous problems, we firmly believe that these goals are attainable through persistent and arduous efforts. China is willing to cooperate with the rest of the world on the

basis of principle of mutual benefit in the fields of economic, trading, and financing matters.

China has always been supportive of all correct and reasonable policies and actions by the World Bank and the Fund, especially those that are favorable to the world economy and the interests of the developing countries. It is our sincere intention to continue and to strengthen our cooperation with the World Bank and the Fund, and to play our part in facilitating the attainment of their respective goals in facing the challenges of today.

Finally, on behalf of the Chinese Government, I would like to avail myself of this opportunity to offer to host the Annual Meetings of the two institutions in Beijing in the near future.

Statement by the Governor of the Bank for Costa Rica

Fernando E. Naranjo

I am highly honored to serve as spokesman at these Annual Meetings for Argentina, Bolivia, Brazil, Chile, Colombia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Philippines, Suriname, Trinidad and Tobago, Uruguay, Venezuela, and my country, Costa Rica.

Latin America remains caught in a difficult economic situation from which there still appears to be no way out, despite all efforts made. Notwithstanding the turnaround in growth in the last two years, gross product per capita is still less than in 1979. Since 1980, the region has suffered a cumulative deterioration of roughly 20 percent in its terms of trade and over the last five-year period has made net transfers of resources abroad in excess of $20 billion a year. It is obvious that a region whose level of relative development requires a substantial inflow of external resources cannot continue transferring abroad a volume of resources of this magnitude without significantly diminishing its development potential. Until a viable solution to the external debt problem is found, Latin America will be impeded in its task of advancing its own development, which must be its fundamental concern.

Two years ago, in Seoul, the international community recognized that the external debt problem could be solved only by more rapid economic growth in the debtor countries. The Seoul program focused on three main areas:

— far-reaching structural reforms in the debtor countries designed to expand domestic saving, increase exportable surpluses, and bring about a more efficient use of resources;

— a recovery in the growth rate of the industrial countries that would

enable them to absorb a greater volume of exports from the debtor countries; and

— significant increases in capital flows to the debtor countries from the commercial banks, international financial institutions, and bilateral agencies.

Headway has been made in only one of the three areas, namely, adjustment in the debtor countries. The turnaround in the industrial countries has not had the impact or been of the magnitude envisaged; as a result, protectionist pressures have emerged there, tending to frustrate the export efforts of debtor countries.

As for capital flows to heavily indebted countries, they continue to be negative. Net commercial bank credit to these countries in 1986 was negative in the amount of $3.5 billion. The new resources provided by banks in certain cases resulted from difficult, grueling negotiations and were intended for the sole purpose of keeping up recipients' interest payments. Net Fund financing of this group of countries has also become negative, in 1986 by $100 million, a highly significant figure when viewed against the average positive level of $4.8 billion annually in 1983–84, and above all, against the Fund's primary purpose. As regards net transfers from the World Bank to the highly indebted countries, although still positive, they have been drastically reduced. From an average of $1.5 billion per annum in 1984–85, they declined to only $700 million per annum in 1986–87. Finally, the net flow of official development assistance to the highly indebted countries has also become negative, in the amount of $3.1 billion, in the last two years.

In the circumstances, it can be no surprise that the external debt problem has escalated rapidly, particularly in the last two years, or that the outlook for development of the debtor countries is darker than before.

Under present conditions, service of the external debt is obviously so burdensome to these countries that it has significantly limited the growth which is universally recognized as the prerequisite for any lasting solution of the debt problem. A small, highly indebted country like Costa Rica would have to devote 6 percent of its domestic product and 25 percent of its export earnings simply to covering its contractual interest commitments. Such figures speak for themselves.

In the face of this desolate outlook for the debtor countries, the international community faces a choice between continued short-term stopgap solutions founded on unrealistic hypotheses and a pragmatic strategy that not only helps overcome the financial problem but gets to the root of the fundamental problem, that of revitalizing the economies of the developing countries, and the highly indebted among them in particular. So the decision is either to go on doing more of the same, although it leads to no lasting solution, or to introduce something that is new, realistic, and promising, as much for the debtor countries as for the international financial community. Unless we take a frank

approach to the external debt problem, we shall soon find ourselves returning here to Washington, under even more oppressive conditions, and bewailing the fact that there is still no real solution in sight.

We firmly believe that the new strategy must be based on the premise that the fundamental objective of the developing countries is their economic development. The ability to service the external debt can be nothing other than the consequence of an accelerated growth process that generates the resources for that purpose. And, as we have said, the servicing of the external debt has to fit in with the real capacities of debtor countries, capacities that are themselves determined by their rate of economic growth.

A key principle of this new strategy is that the costs it involves have to be shared equitably between the principal actors: debtors and creditors. There can be no suggestion that the costs of such a complex problem, a solution to which is of equal interest to both sides, should be allowed to fall exclusively on the shoulders of the debtors, as has happened until now.

It is up to us debtor countries to continue promoting responsible policies of adjustment and structural change conducive to orderly, sustained growth, which in turn will enable us to meet our judiciously restructured external financial commitments.

It is up to creditor country governments to coordinate macroeconomic policies among themselves to prevent undesirable trends and instability in the behavior of key variables—especially interest and exchange rates—which have global impact and can generate fundamental imbalances in world trade and capital flows. It is also up to the creditor country to guarantee increased access for the debtor countries' exports; otherwise, as they themselves recognize, it would be impossible to generate the foreign exchange to cover the debtors' development needs and, hence, their financial commitments. The industrial countries must likewise introduce more flexible laws and regulations enabling the commercial banks to respond more appropriately to the need for adjustment of their external lending terms. Finally, but no less importantly, the industrial countries must increase their official aid significantly, particularly the concessional component so urgently needed by the developing countries.

The multilateral financial agencies, in their turn, must play a more active role in channeling resources to the debtor countries . . . .

On another point, the multilateral financial institutions should also assume, just as they do with the developing countries, the important function of surveillance of the industrial countries' macroeconomic policies, given the magnitude of their impact on other economies via changes in world financial, exchange, and commercial markets. Such surveillance would help improve the ability of these agencies to respond to shortcomings of a systemic nature in international trade and payment mechanisms.

The commercial banks, for their part, should assume responsibility for placing on a sound footing the portfolios of their loans to developing countries, and should gradually reduce the nominal value of these assets to their real value. On this score, the provisioning effort recently initiated by the commercial banks should evolve into a gradual process of revision of the value of this portfolio.

The new strategy to which we have referred should take account of the basic distinction between existing debt and new debt, since they require different policies and treatments.

As far as existing debt is concerned, its nominal value is widely known to be very much higher than its real value. Since the market has already recognized this discount, concerted efforts need to be made, either through formalization of a general scheme or on a case-by-case basis, to ensure that the differential is recognized and properly assessed, and in particular that a method is devised by which the discount will benefit the debtor countries, effectively reducing their outstanding liability.

Mechanisms such as conversion of debt into financial or equity investment and the orderly transformation of the debt are useful and should be facilitated by governments, regulatory agencies, commercial banks, and international financial institutions. In the immediate future, the recent efforts in this direction should be redoubled.

As regards already contracted debt, the recent upward trend of interest rates is cause for deep concern. In the case of Mexico alone, for example, the recent increase in interest rates will require additional annual outlays of $1.5 billion.

At the recent meeting of the Cartagena Consensus, held August 26–28 in Montevideo, Uruguay, a proposal was made to examine options for establishing limits on interest payments and the possibility of capitalizing interest when those limits are exceeded. We do not see any justification for interest rates on already contracted debt to continue to fluctuate according to current financial market conditions. Such fluctuations are a consequence of the policies of the industrial countries and have little to do with the conditions under which the loans originated or which prevail in the debtor countries. The interest rates should be governed by their normal historical level.

A solution to the problem of valuation of the existing debt, and the interest payable on it, along the lines stated above, is an absolute prerequisite for a future restoration of normal financial relations on market conditions.

I should like to conclude this statement with some thoughts on the political, economic, and social crisis that has affected Central America and on the document defining a procedure for establishing lasting peace in Central America signed by the five Presidents in Guatemala on August 7, 1987.

Since 1979, the Central American countries have been caught in a profound

economic crisis, whose causes, both external and internal, are widely known. After eight years, there are still no signs to indicate the beginnings of economic recovery. During those years, per capita income has undergone a steady, dramatic decline in the five countries, ranging from 39.6 percent in Nicaragua to 9.3 percent in Costa Rica between 1978 and last year. Intra-regional trade, which reached its highest level in 1980 with a value of $1.13 billion, has fallen off considerably; estimates for 1987 indicate that it will be below $400 million, or less than 35 percent of its nominal value seven years ago. The area's total exports barely reached $4.05 billion in 1986—a poor contrast with the 1979 figure of $4.67 billion—while external debt rose from $4.85 billion in 1980 to $16.79 billion in 1986. These figures reflect the magnitude and depth of the Central American crisis and the enormous effort its people and governments will be called upon to make in the future.

In some countries in the region, the compounding of economic problems with social and political factors has led to even greater deterioration, the most visible manifestation of which has been extreme financial weakness, exchange instability, and marked social deterioration.

The Central American governments, either jointly in the context of integration arrangements or separately, have taken significant steps to cope with the effects of the crisis and find a solution to it. In this task, however, more pronounced help from the international community was lacking.

The political will has manifested itself clearly in various instances. The Central American Presidents, at their recent meeting in Guatemala, Esquipulas II, reaffirmed the decisions they had adopted in May 1968 at Esquipulas I, stating that:

> We request respect and assistance from the international community for our efforts. We have Central American paths toward peace and development, but we need assistance in making a reality of them. We request international treatment that guarantees development so that the peace we seek may be lasting. We reiterate with conviction that peace and development are inseparable.

The Central American reality, with all its harshness, achievements, and limitations, was debated in depth at the XIII Ordinary Meeting of the Latin American Council of SELA (Latin American Economic System), held a few days ago in Caracas, Venezuela. The outcome of the meeting was a "Statement in Support of Central America." Proclaiming as the foundation of the actions to be taken that peace and development for the Central American peoples are indissolubly linked, this statement advocates and requests that the international community "be forthcoming with extraordinary, preferential, and nondiscriminatory support for Central America in the spheres of economic, financial, and technical cooperation through a sustained program that assures the consolidation of peace through economic and social development."

Against the background of the new concept of promoting adjustment with economic development, the priority given to the latter stands out: development

is not possible if the sacrifices exacted by adjustment conspire against it. The catalytic element in this contradiction can be implemented through two channels: first, in significant and sustained financial aid for Central America and, second, in the need to ensure that such assistance, as well as aid of other types, is provided with due account to the real needs of the five countries, with their individual peculiarities and features. The efforts being made to strengthen and capitalize the regional development banks must be supported unstintingly, as in the IDB case which I mentioned earlier, and the strengthening of the Central American Bank for Economic Integration, particularly by bringing in partners from outside the region.

The Central American Presidents have taken a historic decision. The war must end and peace must be reborn. Instead of arms and repression, there must be more liberty, more respect for political rights, and more bread. There can be no lasting peace without economic and social development.

Central America has experienced an unprecedented economic, social, and political crisis. Here today, in this historic setting, we urge the international community, governments, banks, and institutions to provide the region with decisive financial aid in amounts and on terms that are appropriate and flexible, in support of the efforts we are making to restore peace, political stability, and orderly economic and social development so that we can achieve the levels of well-being claimed by our 20 million people.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND AND THE BANK FOR JAPAN

Satoshi Sumita

It is indeed a pleasure to have this opportunity to meet with the honorable Governors for a constructive exchange of views on the many issues of mutual concern. Before stating my own views on these issues, I would like to express my appreciation for the arrangements that the United States has made for these meetings and my high regard for the outstanding leadership that the Managing Director of the Fund, Mr. Camdessus, and the President of the World Bank, Mr. Conable, have demonstrated and the peerless support that they have received from their staffs.

Current Situation and Problems Ahead for the World Economy

Outlook

At our last meeting, we reaffirmed our shared concern in sustaining economic growth, stabilizing exchange rates, and reducing international imbalances. Over the last year, we have made efforts to attain these goals and thereby to achieve sustained and noninflationary world economic growth.

As a result of these efforts, the world economy has continued its gradual but steady growth, with the industrial countries in particular showing signs of economic expansion. These developments bode well for our shared future.

Much of the progress that has been achieved may be attributed to efforts that have been made for policy coordination to stabilize exchange rates. At the same time, the progress in policy coordination is contributing importantly to the alleviation of external imbalances. Adjustments in the trade flows are already under way.

The Role of the Japanese Economy

Japan has contributed to these favorable international economic developments. As Governor Miyazawa told you when we met last year, Japan fully recognizes its international responsibilities in the management of its economy.

In 1986, the Japanese economy recorded a growth of 4 percent in domestic demand, although the negative growth in external demand that resulted from the yen's appreciation and other factors brought the overall growth rate down to 2.4 percent.

Looking at the economic situation since the beginning of this year, domestic demand has been increasing vigorously and our economy is firmly on the road to recovery. For example, individual consumption has continued to grow steadily, and housing starts have enjoyed double-digit growth for four straight quarters beginning in the third quarter of last year. Capital investment has also picked up recently after last year's sluggishness. This expansion in domestic demand is pulling in more imports and contributing to the balanced development of the world economy.

While promoting policy coordination with the other leading countries, we announced emergency economic measures in May, despite our severe fiscal constraints, to ensure that domestic demand continues expanding and the overall economy continues growing vigorously, and also to reduce the international imbalances for more harmonious external economic relations.

These economic measures include unprecedented front-loading of public works, a record Y 5 trillion (about $36 billion) in additional expenditures for public works and the like, and the advanced implementation of income tax reductions. The supplementary budget for these economic measures was passed in July.

Earlier this month, a tax reform bill was passed providing for a total of Y 1.54 trillion (about $11 billion) in income tax cuts. These latest reductions have been accompanied by the reform of the tax-exempt savings system.

These are just a few examples of how we are seriously working to respond to the social and economic changes taking place in Japan and the rest of the world. These measures are expected to ensure continued firm growth in domestic demand and steady economic recovery.

Japan is determined to achieve noninflationary economic expansion led by strong domestic demand. We believe this will contribute to enhancing the quality of life and will meet the expectations of the countries that have called upon Japan to play a greater role commensurate with its increasing importance in the world economy.

Looking at financial and capital markets, we have instituted a number of measures to deregulate interest rates, to strengthen and expand short-term financial and capital markets, to improve access to Japanese markets for foreign financial institutions, and otherwise to promote the deregulation and internationalization of the Japanese financial and capital markets.

Consistent with the progressive globalization of markets, we are working to ensure that Japanese financial and capital markets are able to play an important role in the world. In June we announced further interest deregulation, the establishment of a market for commercial paper, and other changes to further enhance short-term financial markets. I assure you that we intend to proceed apace with deregulation and internationalization.

Issues for the Future

Despite the progress that has been made, there are still a number of important issues remaining in the world economy.

The first of these is that of promoting noninflationary world economic growth and reducing the still large external imbalances while continuing to work to reduce the massive fiscal deficits in many of our countries in light of the problems they cause. Policy coordination and exchange rate stability are both very important in this context.

Second is the need to resolve the serious problems of debt and development. This is not simply an issue facing the developing countries but is a crucial issue for all of us, for failure to achieve a satisfactory solution could easily impact adversely on the industrial countries and disrupt the entire world economy.

In seeking to resolve these problems, it should go without saying that it is imperative that we roll back the protectionist pressures emerging in some quarters and preserve and strengthen free trade arrangements. In this regard, I am most hopeful that major progress will be made in the Uruguay Round of Multilateral Trade Negotiations, and I urge all countries everywhere to make the maximum effort to ensure that these negotiations are successful.

International Policy Coordination and the Outlook for a Stable Monetary System

Policy Coordination and Exchange Rate Stability

The cooperative efforts that have been made since the 1985 Plaza agreement have enabled us to achieve the goal of rectifying the prolonged overvaluation

of the U.S. dollar and have taken us on the first strong step toward a solution of the issues bedeviling the world economy.

Consulting closely since our last meeting, we have engaged in both macroeconomic policy coordination and exchange market cooperation. While this may lack the drama of a major institutional change in the international monetary system, I am confident that such an incremental and practical approach is the best way to achieve steady progress and evolution in the monetary system.

Our cooperation in exchange markets should be seen not simply as a means of tiding us over a time of temporary volatility in exchange rates but as a part of our international cooperation toward the longer-term goals of achieving sustained and noninflationary growth and reducing the major external imbalances.

The international consensus evolving through the process of such pragmatic efforts and cooperation offers the prospect of a stable monetary system. Japan has been, and will continue to be, an active participant in this process.

The current international monetary system was launched in 1978 when it was decided, in the Second Amendment of the Articles of Agreement of the Fund, to abolish the official price of gold and to gradually reduce gold's role. This was indicative of our determination that it should be possible to stabilize international currency values through resolute agreement even without the traditional crutch of the gold exchange standard. I am convinced that we must persevere in this direction.

Although the dollar continues to play an important role as a key reserve currency, we are encouraged to see that the Japanese yen is one of the currencies which has also been playing an increasingly important supplementary role. Consistent with this, Japan has promoted the yen's internationalization. While SDRs now serve primarily as a safety net for future contingencies, I believe it is important that we continue to re-examine their function in the international monetary system.

The Role of the Fund

I have the highest regard for the role that the Fund has played in the development of our current international monetary system. I am encouraged at the progress being made in studies on implementing multilateral surveillance consistent with increasing international policy coordination. I am confident that the Fund's provision of the *World Economic Outlook* and other materials for discussion will contribute to international monetary stability, and that member countries will be able to undertake their best efforts to reach understandings based on a free and full discussion of these materials.

Seeking to further strengthen the central role of the Fund in promoting international monetary stability, it is imperative that we enhance the Fund's

financial base. This enhancement should be in the form of a quota increase, and Japan intends to contribute to the forthcoming Ninth Quota increase commensurate with its economic abilities.

The Fund has also played an important role in the defusing and resolution of the debt problems, and I very much hope that it will continue to play this central role. From this perspective, I am therefore appreciative of the fact that the Trust Fund established in 1976 and financed with the proceeds from the sale of the Fund's gold stock was used to assist countries facing severe balance of payments difficulties, and that the structural adjustment facility (SAF) was established last year utilizing the repayments to the Trust Fund. Regarding the enhancement of the SAF now under discussion, I hope that the negotiations between the Fund and the countries concerned will result in the creation of a framework conducive to positive cooperation, and, assuming this can be done, Japan is prepared to participate within this framework.

Responding to the Debt and Development Issues

The Debt Situation at Present and the Basis for a Viable Debt and Development Strategy

The developing countries still face serious debt situations. Their debt outstanding continues to rise, and, even though it is anticipated that the increase will taper off a bit, no decline appears in store.

While the developing countries' own self-help efforts are basic to any strategy to solve the debt problem, it is important that the international institutions, industrial countries, and private banks undertake cooperative actions to respond to the problem on a case-by-case basis. Japan believes it is important that the debtor countries, in keeping with their growth-oriented economic structural adjustments, adopt market-oriented debt and development strategies, including promotion of the private sector, encouragement for the financial and capital markets, higher savings ratios, efforts to block capital flight, and the creation of a climate conducive to attracting more direct investment.

Japan's Positive Response

Over the last year, Japan has been acting to resolve these debt and development problems by seeking to recycle a total of approximately $10 billion, including the establishment of a special fund within the World Bank and increased lending to the Fund. This May, we announced that we would recycle an additional $20 billion of completely untied public and private funds to the developing countries over a three-year period. These funds will be recycled in the form of budgetary contributions to the multilateral development banks, their additional borrowing on Japan's financial and capital markets, and cofinancing with these institutions by the Export-Import Bank of Japan, the Overseas Economic Cooperation Fund, and commercial banks.

Looking at official development assistance (ODA) overall, Japan is working

for the earliest possible implementation of its Third Medium-Term Target. We have thus decided to advance the original seven-year doubling target by two years and to see that our actual ODA disbursements during 1990 are in excess of $7.6 billion.

Strengthening the Role of International Financial Institutions

Understandably, there are increasing expectations of the role to be played by the international financial institutions in this international response to the debt and development problems. Japan supports the strengthening and enhancement of the international financial institutions to enable them to respond to the development challenge.

Both the Fund and the World Bank have central roles to play in the solution of the debt problems, and it is essential that the World Bank, in cooperation with the Fund, support the debtor countries' growth- and market-oriented adjustment efforts and that it step up its policy advisory capability to enable these countries to regain the financial community's trust. Likewise, every effort should be made to provide these countries with the additional resources they require as efficiently and effectively as possible, including the greater use of structural adjustment loans and sector adjustment loans. . . .

Conclusion

The expansion of trade and capital mobility has made all of our economies highly interdependent. As a result, the need to achieve balanced development for the world economy increasingly requires that all of us promote mutual understanding and work to implement cooperative policies in our shared best interests.

I am encouraged by the fact that the Fund and the World Bank are crucial catalysts and major forums for this mutual understanding and cooperation, and I trust they will continue to play central roles as our consciences and our better selves.

Cooperating with the other member countries, Japan intends to play a leading role within the Fund/World Bank structure and to work to the benefit of the industrial countries and the developing countries alike, for we know that this is one of the crucial issues for humanity. The only future we have is a shared future. It is up to us to make it work.

Statement by the Governor of the Bank for Indonesia

Arifin M. Siregar

Let me, first of all, avail myself of this opportunity to convey my Government's expression of welcome and high esteem to the new leadership of the Fund under Mr. Camdessus.

A number of positive developments have been observed in the world economy during 1986 and the early part of 1987. Continued progress in controlling inflation has been achieved. Enhanced efforts to better coordinate economic policies among major industrial countries have brought some progress on certain major fronts, particularly in bringing better alignment of major currencies.

But despite these achievements, a number of pressing problems continue to beset the world economy. One problem of crucial importance is the slowing down of the overall rate of growth of industrial countries. In light of the size of the United States and the role it plays in the world economy, it is important that its economic growth be sustained. Since the budget deficit lies at the heart of the U.S. adjustment problem, I believe that the outlook for growth in the United States will remain uncertain. To ensure a significant growth in the United States, an increasing effort has to be made to reduce the sizable fiscal deficit. This fiscal effort could only have a beneficial impact on the world economy if it is supported by stronger domestic growth in the major industrial countries, thereby helping to bring down the U.S. current account deficit and dampening protectionist trade sentiments.

Although this is already the stance of policies agreed upon at the Venice economic summit in June 1987, recent evidence of continuing slow growth and large trade surpluses in both Japan and Germany casts doubts in our mind whether the coordinated international strategy would work fast enough with existing policies and exchange rates. I believe there is much to be said for boosting growth outside the United States through appropriate structural adjustment measures. In addition, macroeconomic policies can also help to bolster domestic demand now that activity has not recovered as strongly as expected in the second half of 1987.

This slowing of growth of industrial economies is also adversely affecting the ability of developing countries to achieve their growth and development objectives. But the negative developments that have taken place in trade and resource flows between industrial and developing countries are even more worrisome. In the last few years, we have observed the slowdown in the expansion of world trade, increased protectionism, and a continuing slump in commodity prices. There has also been a decline in financial flows from commercial banks and other private sources to developing countries. All these developments have further weakened the financial position of most developing countries and have reduced the sensitivity of their economies to growth impulses from abroad.

The above negative developments have aggravated the world debt problem. We are interested in a successful resolution of the debt problem. It should be emphasized that as long as this problem remains unresolved, it also affects the willingness of financial markets to increase exposure even to creditworthy developing countries as well as the terms on which credit is provided. We are

not oblivious to some important steps that have been taken toward the solution of the debt problem, thereby mitigating somewhat the systemic threats of the problem. Nevertheless, more decisive steps are needed if we are not to lose the momentum of our cooperative efforts. The gravity of the debt problem requires a major intensification of efforts and cooperation on the part of debtor and creditor countries, commercial banks, and multilateral institutions, especially the Bank and the Fund. Activity should be aimed at offsetting the negative impacts of recent external developments. The Bank and the Fund should continue to play a meaningful role through their financial support to underpin adjustment efforts in debtor countries. The Fund, in particular, should continue to play its vital role as a catalyst in mobilizing resources from other sources and in its multilateral surveillance efforts.

If the Bank and the Fund are to carry out their central role effectively, they should not be unduly constrained by inadequate resources to meet the increased needs of member countries for financial and technical assistance. The latest *World Economic Outlook* indicates a possible increase in the external financing requirements of member countries, particularly certain indebted primary producers that have faced severe declines in their terms of trade and real incomes. On the other hand, the currently meager financial flows to developing countries are expected to continue in the late 1980s. Therefore the present level of access limits under the enlarged access policy and special facilities of the Fund for 1988 should be maintained. Since the size of structural adjustment facility (SAF) resources has been far from adequate to support the wide-ranging macroeconomic adjustment and structural reforms it seeks to promote, the proposal by the Managing Director of the Fund to triple SAF resources should be concluded as soon as possible so that disbursements can start in January 1988.

In view of the expected role of the Fund, it is necessary to bring the size of the Fund back into a more appropriate balance with the world economy. I strongly support a minimum quota increase of 100 percent under the Ninth General Review of Quotas, as well as an acceleration of the process for the new quotas to be effective. . . .

I should also like to call upon the industrial countries to accelerate the process of ratification for the IDA-VIII Replenishment so that funds will become available for lending to low-income countries on concessional terms, complementing in a substantial fashion adjustment programs supported under an enhanced SAF of the Fund.

Furthermore, present conditions in many developing countries require more flexibility in the lending operations of the Bank and the Fund. Of particular importance is the flexibility with regard to the actual access and the conditionality attached to the use of the resources of these two institutions. Flexibility in actual access is essential to ensure that the adjustment program put in place still allows the achievement of a reasonable rate of growth. As for condition-

ality, flexibility is required to ensure that the adjustment efforts are within the limits of social and political tolerance of the country. Flexibility also appears to be required in the terms of the Bank's project loans. To fit the conditions in some member countries, the Bank should continue allowing the use of some portion of the loan funds to finance local currency costs of projects.

Finally, I wish to express our disappointment that no agreement has been reached in favor of resuming SDR allocations. As a result, we have denied the SDR its potential role as the principal reserve asset, as envisaged in the Fund's Articles of Agreement. We have also failed to appreciate the positive contribution an SDR allocation could have made toward the resolution of present world problems. I do hope that more positive considerations will be given to this matter in our future deliberations so that SDR allocations can be resumed as soon as possible.

I would like to conclude my address by expressing, on behalf of my delegation, our appreciation and gratitude to the U.S. Government whose hospitality and assistance have made our Meetings and stay here a pleasant and rewarding experience.

Statement by the Governor of the Fund and the Bank for Korea

Il Sakong

It is an honor to be here for the Forty-Second Annual Meetings of the World Bank and the International Monetary Fund. Over the years, the Bank and the Fund have played such a critical role in enhancing the world's financial stability and international cooperation. In today's increasingly interdependent world, such efforts are even more vital to global economic health than they were 40 years ago. I am confident that the frank exchange of views at today's meetings will contribute greatly toward these ends, and I welcome the opportunity to participate in the discussions.

Before I continue, I would like to join my fellow Governors in extending congratulations to Mr. Michel Camdessus on his first Annual Meetings as the new Managing Director of the International Monetary Fund. Mr. Camdessus' broad experience and inspirational leadership will, I am sure, greatly enhance the effectiveness of the Fund.

This afternoon I would like to touch briefly upon the two economic issues I view as being most critical to our time: the rising trend of protectionism and Third World debt, both of which are inextricably linked together.

Protectionism in an Interdependent World

The world is becoming more and more interdependent every day. In this

kind of global community, no nation can manage its economy successfully without taking into account its economic relations with other countries. It is no longer possible for a nation, isolated and alone, to achieve economic success and prosperity for its people. Thus, even when making domestic economic policy decisions, a country requires leadership with broad vision and courage because that leadership must look beyond its own borders.

Nevertheless, it is unfortunate that there is a rising trend of protectionism that we all know reduces world trade and increases the likelihood of a global economic downturn. The only way to ensure prosperity for our interdependent economies is through sustained, noninflationary world growth. To accomplish this, we should work together to fight against protectionism. In this regard, the new round of GATT negotiations, now known as the Uruguay Round, is extremely important. Both developed and developing nations have a big stake in bringing this multilateral negotiation to an early and successful conclusion.

Debt Reduction Is Dependent on Free Trade

Despite lower international interest rates, the decrease in international financial lending to developing nations has exacerbated the debt service burden of many indebted countries. It is needless to say that these indebted nations must rely on trade to service their debts. Restricted access to foreign markets means that an indebted nation loses opportunities to earn the foreign exchange it needs to repay its external borrowings. It is important to avoid the vicious circle of protectionism that can only lead to the eventual collapse of world financial markets.

Korea is a good example of how trade can be used effectively to service and repay debt. Even though Korea has the fourth largest external debt in the Third World, it is scarcely mentioned together with highly indebted nations and rarely worried about. This is because Korea has been successful in implementing an outward-looking development strategy based on trade. However, let me state quite clearly that if Korea's access to foreign markets had been further restricted or obstructed, it too would have become a subject of discussion and worry at talks regarding heavily indebted developing nations. Moreover, if the protectionist threat is not brought under control, such a bleak scenario could well become reality.

I am happy to report to the Governors that, after suffering from continuous current account deficits and accumulating external debt, Korea last year achieved a modest current account surplus and, as a result, has been able to reduce its debt in absolute terms. At the same time, Korea has also been able to improve the composition of its debt outstanding.

With tongue in cheek, I would also like to point out to the Governors that, as recently as two years ago, Korea was urged by others to devalue its currency more than it had at the time. It is a measure of our success that today Korea is under pressure to do just the opposite.

"The proof of the pudding is in the eating," they say, and if the success of the Korean economy is any indication, then the adoption and careful implementation of an outward-looking development strategy based on trade is the correct path to take. Moreover, I am convinced that this outward orientation will continue to reap benefits in the future. That is why Korea continues to follow this strategy and why we push strongly for market liberalization both at home and abroad. As a trade-oriented nation, Korea knows that it must open its market if its industries and firms are to mature properly and maintain competitiveness.

Incidentally, I wish to point out that differences between the economies of developing nations mean that a generalized policy response to them may not be appropriate. Korea is unique in that it is now generating an external surplus while also still heavily indebted. Korea has borrowed and it has grown; it is now paying back its loans. In order to do so, Korea must acquire a moderate surplus in its current account for the time being.

Thus, I would like to emphasize that, based on our own successful experience with debt-related development and in using trade as an engine for growth, greater trade liberalization at home and abroad, not protectionism, is called for to restore sustained world economic growth and eventually to help resolve debt problems in the Third World.

Other Steps to Solve the Third World Debt Problem

There are, of course, other steps that can and should be taken to alleviate the debt crisis. Besides keeping their markets open, industrial countries should work closely with their commercial banks in devising constructive ways to solve the debt problem and, if necessary, provide them with financial assistance and/or tax incentives.

As for the commercial banks themselves, they need to recognize that preventing insolvency in the short run for these troubled countries is not the answer. The real answer can only be found by taking a long-term view. In this regard, a substantial deferral of principal and possibly interest payments for those heavily indebted countries that have reached their limit on debt-servicing capacity may be both necessary and desirable. This is preferable to stopgap measures that inevitably result in the snowballing of bad loans. Fresh loans that will enhance the debtor nations' long-term repayment capabilities will also be a necessary step.

As for the debtor countries, they must exhibit strong political leadership and a commitment to adjustment policies aimed at reviving growth in their economies. They must also work toward building a consensus on the need for reform in order to secure cooperation and effective policy implementation.

Increased Role for the World Bank and the International Monetary Fund

Before concluding, I would also like to mention in passing that international

institutions such as the Fund and the Bank also have a more active role to play in discouraging protectionism and alleviating debt problems. They should, first of all, focus efforts on coordinating economic policy actions among both developed and developing nations. As I have already pointed out, in today's complex world independent policy actions are ineffective and sometimes harmful in addressing global problem areas. Only by taking joint actions under a strong and unified framework can we manage effectively to improve the world economic environment. In this respect, the Bank and the Fund can play a vital role.

This year significant progress was made in strengthening coordination of economic policies among the major industrial nations, as noted in the Louvre accord and the Venice economic declaration. The joint commitment of these nations to foster sustainable noninflationary expansion, intensify coordination efforts, and monitor economic developments in close cooperation with the Fund bodes well for the global economy.

In addition, both the International Monetary Fund and the World Bank should play a central role in providing and arranging adequate financing for the adjustment efforts of debtor countries. To this end, the capital base of both the Bank and the Fund should be expanded. Korea welcomes an early agreement on the IDA-VIII replenishment and urges IDA donor countries to expedite their contributions. Korea also welcomes the Fund's initiative to enlarge the structural adjustment facility. The Bank's capital expansion is overdue, and Korea supports early consideration of a sizable general capital increase. As for the Fund, the Ninth General Review of Quotas should be completed expeditiously and guided by a concern to provide the Fund with resources appropriate to the challenges of the 1990s.

Conclusion

It is time to sum up this statement. In my view, substantial progress has been made in improving our external economic environment, but many serious problems still remain to be resolved. Among these, the rising trends of protectionism and Third World debt pose the greatest threat to global economic health. In order to overcome these threats, independent policy actions are not enough; we must act in concert in a clear and consistent manner. Moreover, the nature of these problems—protectionism and debt—demands that they be dealt with together rather than separately.

To address these problems we are left with a hard road to follow, and all of us must take responsibility if we are to make further progress. As we strive to bring this about, we must continue to look to the World Bank and the International Monetary Fund for guidance, cohesion, and coordination.

We have come a long way since the early 1980s in laying the foundation for sustained world growth. Now more than ever we must join together to consolidate this foundation and take bold steps in building a stronger global economy for the future.

STATEMENT BY THE GOVERNOR OF THE FUND FOR ITALY

Giuliano Amato

Despite some unfavorable indications in the first part of this year, we can now be confident of the maintenance of the current growth path in the world economy in the coming months—there will not be, however, any substantive reduction of unemployment.

The latest projections for growth in industrial countries are more encouraging than they were in the spring, and there are no significant signs of a resurgence of inflation. There are, however, dangers in connection with persistent strong payments imbalances, mainly in the three major countries. In addition, I draw attention to the weak performance of fixed investment, which is affected by uncertainties about the evolution of exchange and interest rates as well as about the degree of openness of foreign markets.

A strengthened coordination process between major countries has contributed to identifying the direction of adjustment and to steering economic policies required to correct imbalances.

Nobody can deny that important progress has been made with regard to fiscal policies. The United States has achieved impressive results in reducing the budget deficit for the current fiscal year and is taking steps to reduce it further in 1988. Japan and the Federal Republic of Germany are implementing expansionary fiscal measures. We are convinced that there is scope in some countries for further fiscal action, particularly on the tax front, in the coming year, for the purpose of raising domestic absorption in some countries while preserving price stability.

As regards the correction of external imbalances, an important contribution should come from those industrial countries in surplus which are not facing inflationary pressures as well as from some newly industrializing developing countries, which, owing to their exchange rate policy, are accumulating sizable surpluses. The policies of all these countries should aim at counterbalancing to some extent the withdrawal of fiscal stimulus to the world economy which stems from consolidation of the federal budget in the United States.

Changes in fiscal policies should be accompanied by the use of other instruments in order to correct imbalances and achieve greater exchange rate stability. Interventions in exchange markets are being used more frequently than in the past and have proved effective for limited periods. However, they are not a valid substitute for policy correction. Indeed, their cost may become very high if they are protracted for too long, whereas their effectiveness is enhanced if they are accompanied by adjustments in monetary policies. We are aware of the limits to the use of monetary policy for exchange rate purposes because of the need of keeping liquidity creation under control.

Developments in the last few weeks, with interest rates rising almost everywhere, are already signaling some tensions in the markets.

The situation of developing countries is complex and heterogeneous and is affected by the elements of uncertainty present in the world economy. These countries as a group are likely to show an improvement in their growth performance by the end of the year. However, efforts by these countries to reduce their current account deficits are to an extent frustrated by the slow expansion of international trade, adverse terms of trade, and debt management problems. Their task will certainly be made more difficult by increased protectionist pressures, the rise in borrowing costs, and the disappointing performance of financial resources transfers, especially on the part of commercial lenders.

In sum, our sentiment about the future is that the world economy is still facing risks. The huge amount of accumulated debt not exclusively owed by developing countries and the persistence of high real interest rates may bring about unsustainable tensions in the medium term. It would be impossible to relieve the plight of the highly indebted countries without continuous sustained expansion of the industrial economies, adequate flows and reflows of capital, and openness of the markets. In this respect, it is to be hoped that a reversal of protectionist practices will take place soon, even before the conclusion of the current negotiations for trade liberalization in the framework of GATT and other concerned multilateral institutions.

The latest data confirm the seriousness of the debt problem of developing countries. The total outstanding debt reached $1.1 trillion at the end of 1986. Lending from nonofficial sources is likely to remain inadequate and concessional flows are expected to level off in 1987.

Some of the elements of the debt strategy have not lived up to expectations: the role of commercial banks is, inter alia, a case in point. Although the basic principles, objectives, and instruments of the debt strategy, and in particular the case-by-case approach, are still valid, certain operational aspects need to be reviewed. Commercial banks can play a vital role in middle-income heavily indebted countries. The tendency of the banks to move from balance of payments loans toward trade and investment financing certainly goes in the right direction. Furthermore, the "menu" approach has added flexibility to the debt strategy, although it can only marginally change the distribution of risk between creditors and debtors.

Important initiatives have been taken in favor of the poorest countries. We are supporting the new approach of the Paris Club aimed at lengthening grace and repayment periods and lowering interest rates. Our special concern for low-income countries is demonstrated by the strong support the Italian Government is giving to the proposals advanced within the World Bank and the International Monetary Fund favoring the Special Action Program and the enhanced structural adjustment facility. We consider the role of these institu-

tions as essential in fostering structural reforms in these countries and promoting their economic development.

The Italian Government is making a special effort in favor of some African countries. Recently, rescheduling operations have been concluded at highly concessional terms and conditions, especially as regards interest rates.

The Italian Economy

At this point, let me refer briefly to the Italian economy. I wish to recall that during the 1980s a major effort was made toward adjustment. The rate of inflation was brought down from over 20 percent to less than 5 percent; the current account deficit was wiped out; the degree of Italy's financial integration in the world economy was substantially increased. The economic rehabilitation was accompanied by a rate of growth of GDP higher than that recorded on average in other European countries.

These achievements were made possible as a result of the combined use of rigorous incomes policy, strict monetary and exchange rate policies within the European Monetary System (EMS), and significant efforts to reduce budgetary imbalances. Clearly, they also benefited in the last two years from the improvement in our terms of trade.

The expansion of the Italian economy gained momentum during the first half of 1987, sustained both by consumption, especially of durable goods, and by investment. Domestic demand increased at the rate of 4.5 percent in real terms, while exports were held back, mainly as a result of stagnant demand by trade partners. The trade balance was adversely affected also by higher oil prices and food imports. The current account surplus of $4.4 billion recorded in 1986 was being rapidly eroded.

Since the second quarter, it was also becoming progressively clear that the government borrowing requirement was exceeding the target originally set. The difficult political phase, which led to early general elections in mid-June, did not allow for immediate corrective action.

On the monetary and exchange rate fronts, after the EMS realignment in January, sizable capital inflows led to easier monetary conditions. The situation started changing in the second quarter, when the above-mentioned domestic developments began to be felt. The evidence that the decline in inflation was coming to a halt, and the risks of a certain pickup, mainly as a result of external factors, compounded the problems.

Beginning in May, to maintain control of money and credit aggregates and to ensure market financing of the Treasury deficit, monetary conditions were tightened and interest rates went up. This action was also necessary to counter the reversal of capital flows, which followed the liberalization of most foreign investments by residents, in the context of the full integration of financial markets in Europe. Indeed, interest rates rose to levels which the Fund regards

as the highest among industrial countries in real terms. Moreover, at the end of August the Government introduced measures designed to curb domestic demand and to reduce the public sector deficit. In particular, the VAT rate on most consumption durable goods was increased by 4 percentage points, and the tax on gasoline and fuel oil was increased in order to offset the decline in prices in real terms that had occurred over the last two years. The discount rate was raised from 11.5 percent to 12 percent.

Taking these measures into account, in the current year we expect to achieve a rate of growth of 2.8 percent in GDP and of 3.5 percent in domestic demand, with consumer prices rising by 4.6 percent and the current account showing a small surplus. Moreover, the state sector borrowing requirement should remain at the 1986 level, which corresponds to a decline of nearly 1 percentage point in terms of GDP.

The overall balance of payments registered large deficits in July and August, and the exchange markets entered a period of turmoil at the beginning of September. Several factors were at play in this period: a worsening of the terms of trade, capital outflows related to the portfolio adjustment following the liberalization of capital transactions, and expectations of an impending EMS realignment. Temporary administrative controls were thus reintroduced in mid-September to check the exchange outflow and curb credit expansion.

Together with exchange rate stability, consolidation of public finances remains a major objective of the Italian authorities. The finance bill for 1988 aims at a reduction of the public sector deficit to 10.5 percent of GDP from 11.2 percent in 1987. This will be achieved mainly through a lower rate of growth of public expenditure and a moderately higher taxation, the burden of which has been shifted from social security contributions and direct taxes to indirect ones.

The main macroeconomic assumptions and objectives underlying the finance bill can be summarized as follows. Real GDP growth should be 2.8 percent. The rate of inflation measured by consumer prices should be 4.5 percent, the same as in 1987, in spite of the unavoidable mechanical impact on prices of the increase in indirect taxes, notably the adjustment in the VAT rate. The current account balance should be in approximate balance. To achieve these macroeconomic objectives, wage moderation is of critical importance; for the economic system as a whole, nominal wages should not increase by more than 5.5 percent.

I wish to underline that the most important social problem we are confronted with remains unemployment, which stands at some 11 percent of the labor force and is characterized by regional and age imbalances. Therefore, we are encouraging investments, especially in southern Italy in order to foster the creation of new jobs.

In sum, the finance bill has two main objectives. The first is to ensure a rate of expansion of domestic demand consistent with sustainable growth and external equilibrium in a context of lower underlying inflation. The second is to promote greater flexibility and efficiency of the economic system and to boost private saving. In this framework monetary and credit policies will continue on a path consistent with disinflation and exchange rate stability. The credit flow target set for 1988 provides, however, adequate room for the financing of strong investment growth.

These prospects for the Italian economy are obviously linked to satisfactory growth at the world level. It is incumbent upon all countries to do their part to encourage noninflationary growth and to reduce payments imbalances in a context of stable exchange rates.

Fund Policies

I wish to make at this point a short reference to the institutional aspects of our agenda. First of all, I would like to touch upon the problem of surveillance and indicators that has been widely treated by the Executive Board of the Fund. The effort to improve the framework for moving toward a sustained and balanced growth in industrial and developing economies can be helped by the use of indicators in multilateral surveillance. The development of the indicators exercise can provide us with an information base that is more structured and comparable across countries.

The analytical framework provided by the Fund can make it easier to assess the international compatibility of national policies, to single out areas of weak performance at an early stage, and, possibly, to achieve a higher measure of self-discipline in the conduct of national economic policies.

We have followed with great attention the efforts made to arrive at defining indicators and criteria for their use. Recent developments confirm our opinion that they can help signal internal inconsistencies in the policy stance of individual countries or incompatibility among policies of major countries.

We have noted that the policy of enlarged access to Fund resources has proved to be effective in easing tensions related to the debt problem. The Fund has acted selectively in granting credit under this policy and has been successful in complementing its financing with the structural adjustment facility. Moreover, we have been informed that the liquidity position of the Fund will be satisfactory in 1988. Hence, the policy of enlarged access should be continued with unchanged limits, as a clear signal of continuing support to the debt strategy and concrete encouragement to countries pursuing adjustment and to commercial bank lending.

In recognition of the special attention to be given to low-income countries, we support the efforts to arrive at a substantial enlargement of SAF resources, in accordance with the commitment made in Venice. We have examined the estimates presented by the Bank and the Fund on the likely financial needs of

these countries to pursue extensive economic reforms, and concur that adding SDR 6 billion to the SAF should be our deliberate target.

As regards financing of the facility, several problems must be carefully considered. Given the budget difficulties that many donor countries are facing, the enlargement of the facility is not likely to be met by relying solely on national official resources. As to burden sharing among donor countries, our opinion is that it would be appropriate to refer jointly to Fund quotas, balance of payments performance, and exposure vis-à-vis beneficiary countries.

Concerning the quota review, we recognize that, since SAF negotiations are already under way and the general capital increase of the World Bank has a higher priority, a delay of no more than a few quarters will not be unduly damaging.

On the issue of SDR allocation, we reiterate our support for a moderate distribution in the fifth basic period, since all the preconditions prescribed in the Articles of Agreement are reasonably met. . . .

Before I conclude, I want to express my gratitude and my warm wishes to Mr. Camdessus and Mr. Conable.

Statement by the Temporary Alternate Governor of the Fund and the Bank for Canada

Tom Hockin

It is a great pleasure to participate in the Annual Meetings of the World Bank and the International Monetary Fund.

In my remarks today I want to give my view of the priorities we should set for the coming year in cooperation with the World Bank and the International Monetary Fund.

Priorities for Sustaining Economic Growth

To sustain growth, I believe our policies should address three main priorities:

—first, correcting economic imbalances;

—second, promoting freer international trade; and

—third, reducing the threat posed by the debt situation.

Correcting Economic Imbalances

Let me begin with the importance of correcting imbalances.

Let me state the central problem, which is no less central because it is familiar to all of us. The large U.S. current account deficit and the counterpart

surpluses in Japan and the Federal Republic of Germany must be reduced. Their size and persistence have unsettled currency and financial markets and encouraged protectionist policies—policies that are damanging both to the countries where they originate and to their trading partners.

I believe that in the Group of Seven Louvre accord we have a positive strategy for combating these imbalances. I believe the strategy is working. I believe the United States is taking important steps to reduce its fiscal deficit, that Japan has introduced significant budgetary and structural measures to sustain domestic demand, and that the Federal Republic of Germany is proceeding with tax reductions. As the result, we have witnessed a period of exchange rate stability, and stability helps prevent disruption of trade and investment flows.

Monetary policy also has a role to play, by ensuring price stability and facilitating smooth adjustments in financial and exchange markets. However, and this is also central to us, *we cannot rely on monetary policy to address fundamental imbalances*. Let us never do that. We must strive for a balance of policies that will avoid the need for higher interest rates, with all their consequent costs in terms of growth and the debt strategy.

We have made progress, but as President Reagan made clear this morning, the job is not finished. We cannot yet be satisfied with the results. That is why the countries of the Group of Seven reaffirmed the Louvre strategy on Saturday.

I welcome too the budgetary measures that Japan and the Federal Republic of Germany have introduced to bolster domestic demand. Sustained efforts to reduce Japanese dependence on export-led growth will make a further impact on imbalances, thereby improving prospects for global trade.

I am pleased to report, in the spirit of the Louvre accord, that Canada has made substantial progress in implementing its own Agenda for Economic Renewal, which was introduced three years ago.

We have cut the fiscal deficit. We have trimmed government spending. We have privatized a number of major Crown corporations. We have reduced regulatory burdens within the Canadian economy, most notably in the transportation and energy sectors.

We are reforming fundamentally the rules governing Canada's financial sector, permitting financial institutions to engage in a broader range of financial activities. We are strengthening the system of prudential safeguards in this sector.

In June, the Government of Canada released proposals for comprehensive tax reform that will increase fairness, improve economic competitiveness, and enhance the incentives for Canadians to work, save, and invest.

Deficit reduction, privatization, financial sector reform, fundamental tax

reform—this strategy for economic renewal is now paying handsome dividends in our economic performance. Canada's growth in 1986 was the strongest among the major industrial countries, despite the negative impact of sharply lower international oil and grain prices. This year our economy is expanding at an even faster clip.

Since September 1984, interest rates have declined almost 3 percentage points in Canada. In that same period, the number of jobs in our country has grown by more than 8 percent. The unemployment rate has dropped by 3 percentage points.

All of this has strengthened investor confidence, both domestic and foreign. Domestic investment is up. In addition, foreign direct investment in Canada is running at a record pace. Our strategy is paying off. Canada is doing its part under the Louvre accord.

A key element to further progress in reducing international imbalances is the Fund's continuing leadership in multilateral surveillance and the use of indicators. Stronger multilateral surveillance is helping to improve global welfare by highlighting the interaction of our economies. The Fund's work on indicators shows how valuable a common set of indicators can be in measuring progress toward clearly defined medium-term economic objectives. We strongly support further development of this work.

Freer International Trade

The second priority I believe we must address—one that is crucial for the world economy—is the promotion of freer international trade.

Canada's own economic strategy is based on trade liberalization. We believe firmly that freer trade can benefit all countries. Freer trade encourages investment, provides new jobs, and raises living standards. Expanding world trade is also the only long-term solution to the debt problem.

Over the past two years Canada has pursued further liberalization of international trade on two fronts: bilateral trade negotiations with the United States and the multilateral negotiations under the GATT. Like others in this room, I was present at Punta del Este and shared in the relief and optimism we all felt were emerging from the agreement launching the round.

Now, however, despite our efforts and those of others, I fear that protectionist forces are gathering strength.

The trade bill now before the U.S. Congress is a source of anxiety to us all. We know that its final shape will have an important influence on the success of the new round of the multilateral trade negotiations.

World agricultural trade is a key sector where action is required. Prime Minister Mulroney has been at the forefront of efforts to restore sanity to this sector. Canada has pushed for rational policies in the summit, the OECD, the

GATT, and through the Cairns Group. I want to repeat here the call for early results in the multilateral trade negotiations.

However, our limited success so far must give us all pause. We all know that freer international trade is in our collective and individual best interests. Why can we not attain it?

So let us advance the agenda for freer international trade, an agenda that we know will improve the prospects for economic well-being in all nations. We look to the Bank and the Fund to play a larger role in this process by analyzing the costs of trade restraints and being more critical of restrictive trade practices.

As you know, Canada will host the 1988 economic suimmit in Toronto. We intend to make the question of restoring momentum to trade liberalization a major focal point in that forum.

Reducing the Threat from the Debt Problem

The final priority I want to underline today is to reduce the threat posed by the large and persistent burden of the developing countries' debt.

There are two critical and quite distinct debt problems here—that of the middle-income countries and that of the poorest developing countries. Despite the difficulties, the overall strategy we have followed since the Bank-Fund meetings in Seoul two years ago remains the best route to follow.

For the middle-income countries, the best course is still policies that aim at restoring fiscal balance and encouraging domestic savings and investment. These policies will work, but they take time.

In particular, interest and exchange rates must be set realistically in order to attract foreign investment and bring back flight capital. And indeed, the Bank and the Fund can assist countries with advice and resources. But ultimately, responsibility for sound and effective policies rests, as always, with each individual debtor country.

The commercial banks too have a role to play. Over the past few months, many commercial banks have increased their provisions. I support this. I believe this action has been positive. It has strengthened private financial institutions against contingencies. It is not, however, a step to relieve either banks or borrowers of their obligations.

It is in the long-term interest of banks to continue to lend to countries which adopt constructive policies. I urge the banks to engage borrowers in discussions of medium-term strategies and financing innovations. Likewise, I urge borrowers to seek realistic solutions. They cannot hope to restore the confidence of lenders by opting out of the Bretton Woods institutions.

In the coming year we must look seriously at the adequacy of the resources of the Bank and Fund. Both institutions need the financial means to back up

their policy advice and assist with necessary adjustments. It is an urgent priority that we increase the Bank's capital. We must also move ahead with a substantial increase in Fund quotas. These institutions need this vote of confidence from us to exercise their proper leadership roles.

Yet, the debt problems of the *poorest* countries are of a different order. We know that the debts of the poorest are primarily to other national governments and official institutions rather than to commercial lenders. We know their ability to service these debts has been severely constrained by limited domestic resources and by adverse world commodity price developments.

Our priorities for the poorest nations must be twofold: an early implementation of IDA-VIII and a substantial enlargement of the Fund's structural adjustment facility. Canada accepted a larger share of the IDA-VIII Replenishment. We are ready to pay our contribution now. I urge others to fulfill their commitments.

As for the structural adjustment facility, Canada is announcing at these Meetings that it is willing to contribute the sum of SDR 200 million to this facility, assuming a tripling of the facility as proposed by the Managing Director. By judicious policy-based lending today, we have an opportunity to prevent a problem from becoming more serious tomorrow. Should we not act, the inevitable cost of a solution will only grow. We must not delay.

Consistent with the emphasis in two major Parliamentary studies in my country, one on foreign policy generally and the other on official development assistance, the Government of Canada believes that Bank and Fund lending decisions over the coming year will have to give priority to encouraging policies for adjustment and growth, and in so doing, these institutions must be more sensitive to the environmental and the social impact of their loans. In Canada we have learned from our experience with acid rain how large the costs of ignoring environmental factors can be.

I very much hope the developing countries can learn from the experience of the developed countries how to escape the worst by-products of economic development. I commend the Bank for its efforts to upgrade its work in this area, and I urge it to continue doing so.

Conclusion

It would be trite to say that these are uniquely challenging times for the world community. What is not trite, however, is to express some optimism. In the past, Canada and other countries that share the goal of a stronger world community have helped build multilateral institutions that have been equal to the task. We are continuing to do this. And to those of us who have some fears occasionally for the future, I am reminded of Sylvia Ostry, the Per Jacobsson lecturer, on Sunday when she said, "Fear gives sudden instincts of skill."

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR MALAYSIA

Daim Zainuddin

I would like to begin by extending my congratulations and good wishes to Mr. Michel Camdessus on his appointment as Managing Director of the Fund. I am confident that he will bring new perspectives and fresh ideas to the Fund in the years ahead.

Little has changed for the better since our last meeting. If anything, the uncertainty of sustained world economic growth has increased. Trade imbalances among the major economies are still large, protectionist pressures have not eased, and policy coordination among the major countries seems more remote. The debt situation looks as intractable as ever. Likewise, the terms of trade and real incomes of developing countries continue to stagnate, or even decline.

To their credit, the developing countries have been able to cope under the circumstances. Oil price rises have helped some of them, but most have successfully adjusted and survived a period of reduced expectations. It is important to emphasize that their efforts must be complemented by reciprocal actions of industrial countries and a supportive international environment, as well as an increased flow of resources. In this context, the Bank and the Fund have important financial catalytic and advisory roles to play.

The Fund's structural adjustment and compensatory financing facilities are important sources of funds to the developing countries. Unfortunately, these facilities are granted on such terms that it is becoming quite difficult for these countries to utilize them. Yet, effective adjustment with growth cannot come about without such financing. We believe these facilities should be made more accessible and the terms less stringent.

We should also take the opportunity to enhance the resources of the Fund at the forthcoming Ninth General Review of Quotas. The increase in quotas by SDR 29 billion, which we decided on in 1982, has proved to be grossly inadequate. I would urge fellow Governors to work this time for a significant and meaningful revision in quotas. Statements of the underlying problem must be followed by a sincere intention to achieve goals. We all know that much more needs to be done. . . .

In our desire to attain institutional effectiveness, we must not forget that both the Bank and the Fund should continue to maintain their multilateral character. Any attempt to dominate these institutions by certain quarters would seriously impair their operation, efficiency, and effectiveness—particularly the developmental role they must play in the borrowing member countries.

I urge major industrial countries to stand by their commitments and to forge ahead with their efforts to tackle the underlying problems of external imbalances, instability in the exchange and financial markets, unresolved debt problems, stagnant world trade, increased protectionism, and, above all, sluggish world growth, in a concerted and coordinated manner. The developing countries have taken painful adjustment measures. However, further progress will be severely hampered if a supportive international environment and adequate financial flows fail.

I believe that the Bank and the Fund have important roles to play. It is my hope that decisions taken during these Annual Meetings will enable us to achieve the desired goal of economic prosperity for all.

Statement by the Governor of the Fund for New Zealand

R. O. Douglas

One of the catchphrases of this and most of the recent Joint Annual Meetings of the World Bank and the Fund is the need for adjustment. In New Zealand, we have in fact spent the last three years pursuing in a resolute and wide-ranging manner the kinds of adjustment reforms recommended by the Bank and the Fund. We have gone from being one of the more highly regulated economies in the OECD to one of the least regulated.

We have floated the New Zealand dollar, introduced a firm, anti-inflationary monetary policy, and removed exchange controls. In our traditional manufacturing sector, we are moving with speed to remove all import licensing at the same time as reducing tariffs across the board. In the public sector, we have established nine new government corporations with output equal to 12½ percent of GDP that were previously run as government departments in a noncommercial way. We are proceeding with a program of selling shares in a number of other government-owned enterprises. In the labor market, we have taken steps to overhaul the wage bargaining and industrial relations systems, which had remained virtually unchanged since the turn of the century. Major tax reform has been undertaken with a flattening of marginal tax rates and the introduction of a broad-based consumption tax at a flat rate of 10 percent.

In our most important export industry—pastoral agriculture—we have virtually removed all government subsidies, concessional tax treatments, and soft lending. New Zealand therefore strongly endorses President Reagan's call for the removal of distortions in trade in agriculture. As President Reagan said, this would be a major step toward raising living standards, especially in developing countries, and increasing growth in world trade. Such reforms would achieve far more than any amount of concessional lending. Most delegates, I believe, recognize that agricultural reform is both desirable and

necessary. The real question is whether there is sufficient political courage to introduce the required changes.

Members are generally agreed about what needs to be done to ensure higher economic growth and employment levels on a worldwide basis. The key ingredient of this process is the political will and effective management of structural adjustment.

I want to share with you some of the lessons we in New Zealand have learned in implementing our reforms. First, change must be made in quantum leaps. It must be comprehensive and wide ranging. Piecemeal reform can undermine the process of change.

Second, reforms must be implemented in the form of packages in which there are offsetting costs and benefits for the community as a whole. There must be a sense of fairness, in which all groups are seen to share the burden and benefits of adjustment.

At the same time, there must be careful attention to the pace of change. There are considerable lags between the implementation of policy changes and the achievement of positive outcomes. Insufficient momentum risks deferring the benefits of adjustments and thereby increasing the costs. This in turn risks eroding the constituency for the overall strategy.

Public education is important. It must be made clear why past approaches have failed, why there must be change, and what the benefits of change will be. Vested interest groups have in the past captured the policy process for their own benefit at the expense of the consumer. As we move to reverse this situation, we must learn to ignore the cries of the vested interest groups and talk directly to the general public about the benefits that will flow to them.

Fourth, change must be harmonized in different areas so that they are all mutually reinforcing. Improvements in fiscal and monetary policy, liberalization of markets, and the reduction of excessive debt levels must all be put in place at the same time.

Finally, we should all remember that the price for refusing to change will be a lot higher for all of us than the price of changing. I might add also that such an approach to change can also bring political rewards as well. At least, that has been New Zealand's experience.

Statement by the Governor of the Bank for Greece

Constantine Simitis

I should like to join previous speakers and begin by congratulating Mr. Michel Camdessus on his assumption of the Managing Directorship of the

Fund. With his vast and varied experience of public service, we are confident he will provide strong and inspiring leadership to the Fund to meet the challenges that lie ahead. We wish him every success in his new assignment.

Like other colleagues who have spoken before me, I would like to express our disappointment and concern about the development of the world economy over the last twelve months. Despite the opportunities presented by lower oil and non-oil commodity prices and the associated falls in inflation and interest rates, we have seen a marked slowdown of growth in the industrial countries in late 1986 and early 1987, a weakening of investment, continued high unemployment, especially in Europe, sluggish world trade, and deteriorating economic conditions in many developing countries.

There are signs of a recovery in some industrial countries in recent months that suggest slightly more buoyant activity in the second half of 1987, but this trend is still not firmly established; in other countries the picture is still uncertain. It is encouraging to note that the current Fund projections point to a sustained recovery over the period to end-1988.

Nonetheless, the projected rate of economic growth in industrial countries will not be sufficient to reduce unemployment rates or to make an impact on developing countries. The inflation outlook, while still satisfactory in most industrial countries, has nonetheless worsened somewhat and has led to a rise in interest rates.

A number of speakers have already expressed concern about the persistence of unsustainably large current account imbalances among the largest industrial countries, the increase in protectionist actions, and the rapidly aggravating debt crisis. We share this concern, as we see in these developments a serious risk of deterioration in the world economic situation.

Against this background of unfavorable world economic conditions, it is crucial that our efforts be intensified to improve the environment for growth and financial stability. I think we would all agree that we cannot be satisfied with the present situation and prospects. All countries have a responsibility and must be prepared to play their part in a cooperative effort. In view of the impact that national policies of the leading industrial countries exert on the world economy, there is a need to further enhance the coordination of these policies to help improve the international environment. Important steps have been taken in that area over the last couple of years. The agreement reached in Paris in February, which was reaffirmed at the Venice summit in June, is an important achievement in this direction. It is important that concrete steps be taken with a view to implementing this commitment fully and resolutely.

Redressing the imbalances that have been allowed to build up in the world economy will not be an easy task. It is now generally accepted that exchange rate changes alone are insufficient to correct large payments imbalances among the major industrial countries and improve economic performance. The impact

of exchange rate adjustments must be reinforced by appropriate domestic economic policies. However, it is imperative that these policies be geared to sustaining the momentum of growth while also safeguarding the progress made in containing inflation and dampening inflationary expectations. We are convinced that such a coordinated approach will lead to a reduction in interest rates, thereby enhancing investment and growth and making a contribution to the easing of the problems associated with external indebtedness. In this respect, we find the communiqué of the Group of Seven encouraging.

Reversing the protectionist trend is also essential for sustaining and enhancing global economic growth and improving the environment for financial stability. We follow developments in the Uruguay Round of trade negotiations with great interest and I believe, in concert with my colleagues in the European Community, that positive progress in these negotiations is crucial to preserving and further developing the open trading system. However, we should be realistic and accept that progress in liberalizing trade in some areas will have to be gradual. In the same spirit, I welcome the conclusions of UNCTAD-VII.

With these concerns in mind, let me now briefly outline to you the economic situation in my own country.

Developments over the last couple of years have been strongly influenced by the current stabilization and recovery program introduced in October 1985. The program has been designed as a first step toward a comprehensive adjustment effort with the aim of restoring a more sustainable balance of payments position, substantially reducing inflation, and establishing the underlying conditions needed to achieve sustained growth over the medium term.

Both the objectives for inflation and the current account of the balance of payments were virtually met in 1986, with the current account deficit shrinking to $1.7 billion (some 4¼ percent of GDP) from a peak level of $3.3 billion (some 9¾ percent of GDP) reached in 1985, and the rate of consumer price inflation falling to 16.3 percent from 25 percent at the end of 1985.

Developments so far this year have shown further progress toward stabilization on both fronts. On the external side, the current account deficit in the first eight months narrowed further, and a further improvement is projected for the remainder of this year. We are therefore confident that the reduction of the current account deficit to $1.25 billion, or 3 percent of GDP as targeted for the year as a whole, is not only attainable but indeed probable.

The disinflationary process continued in 1987. Despite a pickup early this year, due mostly to extraordinary factors, consumer price inflation has further decelerated in the first eight months of the year to a rate that can reasonably be expected to decline by the end of this year by about 3 percentage points, in comparison with 1986.

It is fair to say that the main objectives of the program have by and large been achieved. It is encouraging to note that the improvement achieved in fundamentals over the past two years has led to the restoration of business confidence and a recovery of private investment.

My Government is determined to continue the adjustment effort in 1988 and over the medium term, with increasing emphasis on the correction of structural weaknesses and rigidities in the economy. The immediate targets for 1988 are the further deceleration of inflation, hopefully to a single-digit figure, and a further improvement in the balance of payments, which will permit the stabilization of the external debt. It should be recognized, however, that the success of our adjustment effort depends critically upon firmer growth in our partner countries that have made the greatest headway in the adjustment process and on the improvement of global conditions in the international financial and trade environment.

I will now turn to matters more directly related to Bank and Fund activities.

I am pleased with, and fully support, the initiatives of the Managing Director of the Fund (1) to seek a tripling of resources to be made available to the structural adjustment facility over the three years 1988–90 for the benefit of low-income developing countries; and (2) to place greater emphasis on growth-oriented structural adjustment programs designed with the assistance of the Bank and the Fund. I also want to express my satisfaction for the World Bank's proposal for a Special Action Program to obtain additional donor financing in order to assist debt-distressed countries in sub-Saharan Africa undergoing rigorous structural adjustment in their economies. By adopting the enhanced structural adjustment facility, by making the debt-rescheduling terms under the auspices of the Paris Club more favorable than those granted so far, and by making additional concessional resources available from bilateral donors and the International Development Association, the world community will be taking an important and urgently needed step toward addressing the special circumstances of the heavily indebted low-income countries. However, the time has come for a more comprehensive and innovative re-examination of debtor-creditor relations, with due respect to the diversity of situations, if the debt problem is to be resolved. This is more so for the middle-income debtors for which private financing has been slow in coming, belying their expectations.

In this context, the Bank and the Fund might be called upon to devise new strategies not only to efficiently manage but also to eventually overcome the debt crisis.

With respect to the Fund's role in assisting member countries in their adjustment efforts, I support the continuation of the Fund's enlarged access policy in 1988, and I applaud the reactivation of the compensatory financing facility while awaiting the results of the ongoing review, following the weak export performance of primary producers and depressed commodity prices in

1986. I also hope that the discussions on the Ninth General Review of Quotas will be fruitful and will result in a substantial increase in usable resources, which the Fund urgently needs to perform its enhanced mission. Moreover, I want to reaffirm my conviction that a general capital increase is necessary if the World Bank is to meet the increasing needs of the developing countries. Finally, on the question of a new SDR allocation, Greece's position remains that such an allocation is desirable both on technical grounds—as Fund studies have repeatedly demonstrated the advantages of substituting SDRs for borrowed reserves—and on world economic stability considerations, since the allocation would enhance the capacity of the indebted countries to deal more effectively with the task of debt reconstruction.

STATEMENT BY THE GOVERNOR OF THE BANK FOR YUGOSLAVIA

Svetozar Rikanovic

It is my great honor and privilege to address this distinguished gathering on behalf of the Yugoslav Government. I wish to join my fellow Governors in extending gratitude to our hosts for their hospitality and excellent organization of the Annual Meetings. Also, I would like to wish well and successful work to Mr. Camdessus, the Managing Director of the International Monetary Fund, who is addressing these Meetings for the first time.

This year I again have to express my deep concern over the continued slowdown in international economic activities, particularly in the developing countries. The per capita GNP in African countries has been decreasing for seven consecutive years. Stagnation or negative economic trends characterize many Latin American economies. Economic results in most developing countries, as recorded during the 1980s, were at their lowest levels of the past three decades. There were only a few exceptions, mainly in Asia.

The world economy is still facing a number of serious problems and, because of depressed investment activity, its future is uncertain. As we know, primary commodity prices have been at very low levels for quite some time. These prices are expected to drop further, by some estimates by even more than 10 percent this year. The financial flows to developing countries are negative and represent an absurd contrast to the efforts of these countries that are trying to adapt and structurally reform their economies. Repayments by developing countries to commercial banks have exceeded by more than $5 billion the newly approved bank loans in 1986. At the moment when support by international financial institutions is most urgently needed, the net outflow of resources from developing countries to the Fund was SDR 1.6 billion over the period January to April 1987.

The present debt strategy of the creditors has evidently failed in restoring economic growth in debtor countries. Two of the three essential prerequisites for the success of the strategy—a more favorable international economic environment and increased financing of debtor countries—have not materialized. Enormous efforts invested by debtors to stabilize their economies, frequently at a high cost of economic, political, and social difficulties, are thus at stake. This results in discontinued economic development, internal destabilization, impoverishment of nations and regions, and jeopardized global economic recovery, which affect the overall international financial and economic system. A growing number of debtors, both among the most heavily indebted and the poorest countries, are no longer able to settle their debt obligations. What else is needed for the international community to recognize that it is at a turning point where it must opt either for economic growth and global progress or for stagnation and recession?

During the past days we have been listening with certain hope to the voices speaking of a better international understanding, particularly when they refer to the poorest and the most debt-distressed developing countries. I share the view of numerous developing country representatives that the nations with strong economic power, knowledge, and high technology must more rapidly and efficiently harmonize their economic policies with more universal development objectives in order to allow greater justice and equality for all members of the international community.

Finance ministers of the Group of Twenty-Four have wholeheartedly emphasized in their report, and particularly in the Statement on Immediate Action, the following:

—urgent implementation of the initiatives and proposals for assistance to the poorest countries, especially those in sub-Saharan Africa;

—tripling of SAF resources, in line with the proposal given by the Managing Director of the Fund, Mr. Camdessus;

—urgent general capital increase for the World Bank and early conclusion of the Ninth Review of Quotas in the Fund, with an objective of at least doubling the resources of our two institutions;

—substantial increase in financial flows to the developing countries and recycling of the balance of payments surpluses of some highly developed countries; and

—removal of protectionist barriers to the developing countries' exports in developed countries.

The role of the International Monetary Fund in adjustment with growth should be urgently reviewed along the lines of the proposals contained in the Group of Twenty-Four report. My country fully supports these requests. We welcome brighter prospects for the general capital increase of the World Bank

and we would like to encourage President Conable and the Bank management to complete their endeavors as soon as possible.

Allow me to briefly refer to the developing countries' debt problem, which has grown into a paramount obstacle to economic growth and development. Under the circumstances, it is only realistic to expect further deterioration of the international debt crisis. It is no longer disputable that the global problem of the developing countries' indebtedness can only be solved by their accelerated economic growth and development. In order to solve the debt crisis, not only are longer repayment and grace periods necessary, but also lower interest rates and other costs are needed, as well. There is an increasing consensus that only reduced debt obligations and shared adjustment costs between debtors and creditors can lead to a lasting debt problem solution. Market forces and signals also point to the way to a long-term debt problem solution. Let us try to enrich these with new approaches and techniques, taking into account development needs of debtors. We support the proposals made by the Group of Twenty-Four, which persistently and backed by strong arguments, call for an intensive dialogue among all participants and partners in the debt crisis and for their more active endeavors and cooperation.

Allow me in concluding to say that my country has been experiencing a rather sluggish adjustment process during the 1980s, with a special focus on attaining external balance. A surplus in the current account of the balance of payments has been maintained for five consecutive years. External adjustment aggravated domestic imbalances and brought about accelerated price increases. Net capital outflow on account of credit transactions has been continuously rising in favor of all our creditors, particularly in favor of commercial banks. In circumstances when the GNP growth rate is less than 3 percent, almost 10 percent of the country's GNP has to be allocated for debt obligations and interest payments due in 1986 and 1987. Such developments have brought about disinvestment and a drain of resources, and threaten at the same time to further aggravate external debt management.

In Yugoslavia, we are presently engaged in the preparation of a program of comprehensive stabilization, which is mainly anti-inflationary oriented. It will serve as a basis for the initiation of adjustment with growth, basically by relying on market forces and mechanisms.

We believe that we will thus succeed in mobilizing all our potentials and that the austere adjustment program will be implemented in a way which will get the support of our creditors: the governments, commercial banks, the Bank, and the Fund.

We hope that the volume and quality of our creditors' resources will match our needs. We further hope that such support will be timely and allow simultaneous growth and the process of adjustment. Such an approach, in our view, will not lead to increased indebtedness during the next few years. Nonetheless, we do not count on a further debt decrease in the forthcoming period.

DISCUSSION OF FUND POLICY AT THIRD JOINT SESSION[1]

REPORT TO THE BOARDS OF GOVERNORS OF THE FUND AND THE BANK BY THE CHAIRMAN OF THE JOINT MINISTERIAL COMMITTEE OF THE BOARDS OF GOVERNORS ON THE TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES (DEVELOPMENT COMMITTEE)

B.T.G. Chidzero

I have the honor to present the 1987 Annual Report of the Development Committee. As this is my first report to the Boards of Governors, I would like to express my sincerest appreciation and gratitude to all members of the Committee as well as the heads of the institutions for their support and advice, which have helped me cope with the challenges of my office.

As the Annual Report on the work of the Development Committee during the period July 1986 to June 1987 has officially been transmitted to the Chairman of the Boards of Governors, I propose to highlight, in the main, the major points of the deliberations at the Committee's meeting held on September 28.

The central focus of our deliberations was the revival and sustainment of growth in the developing countries and the need to increase resource flows for this purpose, the more so in view of the burdens of debt service and historically depressed commodity prices. In this context, the Committee discussed proposals for action for low-income countries facing exceptional difficulties, especially the seriously indebted countries in sub-Saharan Africa. It also continued its review of growth-oriented programs in the heavily indebted middle-income countries and gave further and pointed consideration to the World Bank's role in development and its resource requirements.

These discussions were held against the background of a number of external factors adversely affecting growth prospects, such as persistent weakness in commodity prices, modest growth in the industrial countries, increasing protectionist pressures, high debt burdens, and inadequate financial flows. Particular note was taken of the adverse impact of increases in real interest rates. The Committee stressed the importance of raising the level of global economic activity by improvement in the policies of industrial countries as well as strengthening of adjustment efforts in many developing countries.

[1]September 30, 1987.

Low-Income Countries with Exceptional Difficulties

At its last meeting the Committee expressed great concern about the exceptional difficulties confronting many low-income countries, as I have mentioned already, especially the seriously indebted in sub-Saharan Africa. I am happy to report that there was full agreement on the need for urgent action on the part of the international community to assist these countries in their adjustment efforts. The Committee, therefore, supported the proposals by the Bank and the Fund, which would provide donors and creditors with a variety of measures which they could adopt to assist the low-income countries. In this regard, the Committee strongly supported the Bank's proposals for an increase in IDA disbursements to these countries and encouraged donors to increase the flow of concessional resources in co-financing operations with the Bank. It also strongly endorsed the initiative of the Managing Director of the Fund for a substantial increase in the resources of the structural adjustment facility.

In general, the Committee held that the financing needs of low-income countries should be largely met through assistance on appropriately concessional terms. It considered proposals for debt relief by reducing interest rates for these countries and urged donors to increase the concessional element of their support.

The growth prospects and the debt situation in these low-income countries call for urgent and decisive action. The measures considered by the Committee should go a considerable way in alleviating the situation of these countries that face unique growth and balance of payments problems.

Review of Progress in Heavily Indebted Middle-Income Countries

In its last two meetings, the Committee reviewed the situation in the heavily indebted countries against the background of the current debt strategy. The consensus reached in Seoul in October 1985 called for concerted action by all the major parties—the indebted countries, the industrial countries, the commercial banks, and the multilateral financial institutions.

In its assessment of the complex issues involved, the Committee emphasized the need for an improved external environment and increased capital flows to debtor countries on terms adapted to their payments situation and their specific economic circumstances and for the debt strategy to be kept under review so as to enhance prospects for growth and development. The Bank and the Fund were urged to play a strong leadership role in expanding flows of finance and to assist in promoting a "menu" approach, including help in diversifying financial instruments attractive for creditors and bank financing.

The Bank's Role and Its Resource Requirements

At its meeting this week, the Development Committee had a most produc-

tive discussion on the question of a general capital increase for the Bank and gave full support for a substantial increase, sufficient to support a growing lending program for an appropriately long period of time. The Committee emphasized that this should not be regarded as a substitute for expanded flows of resources from private sources. The Executive Directors of the Bank were urged to complete their deliberations expeditiously so that the provision of increased capital subscriptions to the Bank could start as soon as possible.

Adequacy of Resource Transfers to All Developing Countries

The Committee maintained a regular review of trends in the transfer of resources to developing countries, noting a continued decline in flows of all types. It was agreed to focus attention on the adequacy of resource transfers at our next meeting.

Environment, Growth, and Development

The Committee had a first round of discussion in April 1987 on the important relation between environment, growth, and development. In September 1987, members had a report from the 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 account of elements in the report of the World Commission on Environment and Development (Brundtland Commission) of relevance to the Committee.

Commodity Problems and Agricultural and Industrial Policies of Industrial Countries

In its April 1987 meeting, the Committee reviewed the depressed state of international commodity markets and the unfavorable outlook. Options for dealing with commodity problems were considered by the Committee. In its September 28 meeting, the Committee asked that this important item be placed on its future work program. The Committee also discussed the impact of industrial countries' agricultural and industrial policies on the economic prospects of the developing countries. At its September 28 meeting, the Committee requested the Bank and the Fund to undertake an in-depth study on the impact of industrial policies of the developed countries on the developing countries for consideration by the Committee as soon as possible.

Poverty Impact of Adjustment and Development Programs

After an initial discussion on the impact of adjustment programs on the poor, the Committee agreed to have a fuller discussion on this critical subject at a future meeting.

Current International Trade Issues

The Committee continued to follow developments on international trade issues with the benefit of presentations by the GATT Director General. The Committee, while welcoming the launching of the Uruguay Round of multilateral trade negotiations, stressed the need to implement the standstill and rollback commitments for reducing protectionism and the importance of trade liberalization in a global strategy on debt and development.

Conclusions

Looking back on my first year as Chairman, I must say I have been encouraged by a heightened understanding in the Development Committee and in other international fora of the nature of development problems facing developing countries and the need for urgent action. Given the gravity of these problems, it is essential and pressing to go beyond stocktaking and agree on concerted actions. Our meeting this week gave political momentum to increasing the resources of the Bank within the coming year, to further actions in support of the low-income, debt-distressed countries, and to the need for strengthening resource flows to the heavily indebted middle-income countries in an improved external environment.

STATEMENT BY THE GOVERNOR OF THE FUND FOR THE FEDERAL REPUBLIC OF GERMANY

Karl Otto Poehl

I first want to express my firm welcome to the new Managing Director of the IMF, an old friend and former colleague, Michel Camdessus. He takes over at a time when many industrial and developing countries can point to solid achievements and progress in a number of areas.

In the industrial countries, the return to greater price stability and, more recently, to greater exchange rate stability stands out as the most important achievement. This has been due primarily to the policies adopted and adhered to in individual countries to deal effectively with the causes underlying the internal and external imbalances that beset each of them. It has also been due to closer and more effective cooperation, especially between the major countries. We have the real chance of turning the present world economic recovery into one of the longest periods of uninterrupted economic expansion on record.

The positive results benefit not only the industrial countries themselves. They also offer the prospect of a more stable world economic environment for developing and highly indebted countries to deal with their problems individu-

ally and in cooperation with their partners in the industrial and developing world. There is indeed an important lesson for all countries to be drawn from these achievements: that the primary responsibility for restoring internal and external balance rests with each individual country, but that cooperation at the regional as well as the global level will assist the process of adjustment and help avoid unnecessary friction. Effective cooperation is even more indispensable in today's less favorable growth environment than in the earlier decades of the 1950s and 1960s.

In the industrial countries, coordinated policy adjustments have created a more favorable environment for a substantial correction of the current account deficits and surpluses of major countries, including my own country. Published monthly and quarterly trade and current account data may still conceal the extent of the adjustment that is under way, and foreign exchange markets may not take due account of the underlying adjustment. But we knew all along that export and import values would reflect the volume effects of changes in relative prices with considerable delay. Differential growth of domestic demand in surplus and deficit countries is, of course, crucial to the outcome and to the speed of adjustment. The recent strategy pursued by the major industrial countries, as reflected in the Louvre and Venice communiqués, rightly emphasizes the need for effective policies designed to ensure that domestic demand expands more rapidly than domestic output in major surplus countries and less rapidly in deficit countries. According to the most recent data available and the estimates made by the Fund staff as well as other institutions, such as OECD or the European Communities, this seems to be assured as far as one can reasonably look ahead.

Economic policies and performance in the industrial countries are moving in the right direction. The recent substantial reduction in the fiscal deficit of the United States is most encouraging. I note the U.S. Administration's determination to pursue this policy, which is indeed essential for containing a further rise in interest rates, reducing the trade and current account deficits, and thus countering protectionism effectively. Much is at stake for the United States itself and for the world economy.

The budgetary adjustments in Japan and the already enacted tax reductions in the Federal Republic of Germany will give additional impetus to the continuing expansion of domestically led growth in these countries.

Let me recall here that the Federal Republic of Germany, in addition to the tax cuts of the past few years, will reduce personal income taxes at the beginning of the next year by another DM 14 billion or 0.7 percent of GNP, which will be reflected in a significant increase in public sector deficits. Additional net tax relief of DM 20 billion or 1 percent of GNP will be provided in the context of the comprehensive tax reform, which will be implemented in 1990. Thus, between 1986 and 1990, the Federal Republic of Germany will have provided net tax relief totaling DM 50 billion or 2½ percent of GNP.

Through this process of tax reduction and reform, we will continue to improve the conditions for domestically led growth, both on the demand and the supply sides of the economy.

After growth had been hesitant—as in some other European countries—around the turn of 1986/87, due to the shock effects of the sharp appreciation of the deutsche mark, and due to adverse weather conditions, the German economy is again back on a satisfactory path of growth, with internal demand expanding at a healthy 3–3½ percent.

The primary objective of economic policy in the Federal Republic of Germany remains steady progress of the domestic economy based on credible monetary policy, substantial tax cuts and reform, the strengthening of market incentives, and the reduction of the role of government to its proper tasks, which it will then fulfill all the more effectively. We will retain the essential medium-term focus of economic policy.

As the recent *World Economic Outlook* was right to recall, "the key objective of monetary policy remains the containment of inflation and inflationary expectations." This is the essential contribution of monetary policy to sustained growth and international financial stability. We should not forget the lessons of past recovery phases, in which accelerating inflation brought the upswing to a premature end.

In today's world of ever more closely integrated financial markets, stability of exchange rates can only be assured on a durable basis if economic, fiscal, and monetary policies in all countries are committed to the objective of price stability. This principle was reconfirmed only a short while ago in the context of an effort to strengthen the functioning of the European Monetary System (EMS). That system, as you all know, has been in operation for eight and a half years now, and it has in large measure succeeded in its objective of creating a zone of monetary stability in Europe. It has helped to prevent the "overshooting" of exchange rates between participating currencies, and it has assisted individual countries in their efforts to overcome inflation at home.

This success of the EMS has made it possible for its members to agree on a number of changes in its operating rules. This should help avoid tensions within the system that have little or no real basis in the fundamental divergencies between countries' policies and performance, especially inflation differentials, but are mostly the consequence of the erratic behavior of the exchange market. Of course, these changes involve some important concessions on all sides, including—particularly—the Federal Republic of Germany and its central bank. But I strongly believe that the changes we have made are constructive and will give further impetus to the close cooperation that is the basis of the successful functioning of the EMS.

In the same vein, the closer coordination of policies, which has been agreed between the major industrial countries, is crucial if the adjustment process that is under way is not to be undermined by exchange market volatility. In any

case, we cannot rely on the exchange rate mechanism alone for external adjustment. As the major industrial countries affirmed last weekend, they will carry forward their economic policy coordination with a view to ensuring that the fundamental economic conditions are in place for the stable functioning of exchange markets.

We have also seen a significant strengthening of the adjustment efforts in many developing countries. Many of them have met with considerable success. However, I do not wish to underestimate the difficult tasks that remain. While many developing countries are successfully promoting needed reforms, others find it hard to maintain the social consensus during the protracted period of adjustment. Often enough, growth rates are clearly insufficient to meet the needs of growing populations, while growth prospects are limited by a lack of investment opportunities.

These severe problems confronting especially the many indebted developing countries should not make us overlook the progress that can be achieved with sound economic policies, perseverance, and determination. Let me also stress once again that there simply is no realistic alternative to the cooperative country-by-country approach to the debt problems. If anything, even greater diversification within this approach to meet individual requirements may be needed.

To be sure, adequate financing is an integral part of the development process. It is also needed to soften the impact of adjustment during the transition to more satisfactory growth. However, it would not be prudent to take on new debt unless the debt-servicing capacity can be expected to rise correspondingly. Efforts made by debtor countries to create a favorable climate for the mobilization and efficient use of non-debt-creating financing deserve the strong support of the Bank and the Fund. Ample opportunities have to be created for the profitable investment of increased domestic savings, repatriated flight capital, and foreign direct investment.

It is highly desirable that the relations of the middle-income countries with the commercial banks should return to normal. Recourse to a wider choice of financing options, of which there have recently been encouraging examples, should help banks in mobilizing finance where this appears justified. Banks are likely to be more cooperative the greater their confidence in countries' determination to pursue policies that will deal with the underlying problems of each case. It would not be appropriate for the public sector to take over risks that the banks have assumed under their own responsibility. With regard to the poorest countries, official creditors have a special responsibility to fulfill. Without the strong support from the official side, the prospects for these countries to achieve a more satisfactory path of development would appear bleak in many cases.

The debt discussion is showing signs of greater realism. It has become more explicitly recognized that an orderly solution to the debt problems can be

sought only in the context of sustainable growth of the debtor economies, which requires a supportive international environment and the support from official and private creditors. Debtors, on their part, recognize more explicitly that they have the primary responsibility for their own development. The importance of domestic policies is brought out in the *World Economic Outlook,* which compares the sharply contrasting policies and performances of countries that have encountered debt problems and those that have not, thereby setting examples from which we all can learn. Growth and adjustment, countries' own efforts, and international cooperation must go hand in hand.

There is an undiminished need for a strong, central role for the Bank and the Fund. The agreed Eighth Replenishment of IDA needs to be implemented without delay. The expanded role of the World Bank in promoting growth-oriented policy reforms calls for a substantial general increase in its capital, including an adequate paid-in portion. In the Fund, the immediate task is to work out satisfactory arrangements for enhancing the structural adjustment facility so as to enable the Fund to serve its poorest member countries more effectively. All member countries should contribute to the enlargement of the resources of this facility. We are willing to do so. Moreover, we should work for agreement on the size and modalities of an increase in the Fund quotas, to be implemented in due course.

Let me conclude with a strong appeal to all partners to resist protectionism and to work actively toward the early successful conclusion of the Uruguay Round of multilateral trade negotiations. In this context, the standstill and rollback commitment is of crucial importance. Protectionism in all its forms remains a threat to the welfare of all nations, industrial and developing alike. It must not be allowed to gain ground.

Statement by the Governor of the Fund and the Bank for Saudi Arabia

Sheikh Mohammad Abalkhail

In the name of God, the compassionate, the merciful: It is a privilege to address the meetings of the Boards of Governors of the World Bank and the International Monetary Fund on behalf of the Arab Governors. I join my fellow Governors in extending a welcome to Mr. Camdessus as Managing Director of the Fund.

Last year's global economic performance has been characterized by a mix of progress, disappointment, and continued uncertainties and risks. There have been some encouraging signs on the adjustment front in all countries. Progress has been achieved on policy coordination since the Louvre and Venice meetings; exchange rates have been realigned, and there are serious efforts to stabilize them; and inflation rates have continued to be low.

The disappointments are mainly the slow growth in the industrial countries and the continuation of imbalances in external payments among the three major countries at levels that are unsustainable in the medium term. Unfortunately, growth in many industrial countries has been seriously constrained by the limited growth potential, which was due, in large part, to the lack of progress on macroeconomic and structural adjustments. In some industrial countries, there has not yet been a firm and credible policy to reduce their fiscal deficits, while in others, there has yet to be a convincing effort on structural reform, including shifting demand and resources toward more domestic orientation. It is now uncertain whether even the current moderate growth rates can be sustained.

The major risks ahead are increased protectionism, persistence of the debt problem, and the slow growth in the developing countries, due, in part, to their adverse terms of trade. The lack of progress in macroeconomic and structural adjustment in industrial countries is the fundamental reason why trade and growth have failed to accelerate. Unfortunately, in recent years, several industrial countries have resorted to protection, instead of adjusting and enhancing their potential growth.

A shrinking proportion of world trade is being conducted according to the principles of free trade. In fact, perhaps as much as one half of all trade is now affected by nontariff barriers. Persistent attempts by countries in our region to diversify out of oil production into industries in which they have a comparative advantage, for example, petrochemicals, have been frustrated by protectionist barriers in industrial markets. Intensified trade restrictions are threatening other traditional areas of trade, including agriculture, clothing, and textiles. It is very unfortunate that most industrial countries are perpetuating structural rigidities and distortions through protection, especially through heavy subsidies granted to inefficient industries, leading to a serious global misallocation of resources.

The international community should not stand by and allow this alarming trend to continue. I urge the Bank and the Fund to take a firm position to convince industrial countries that it is in everyone's self-interest to avoid shortsighted, protectionist solutions, and to opt, instead, for long-term structural adjustment. The Bank and the Fund should vigorously promote free trade and support those countries that see free trade as an essential component of adjustment and restored growth. Industrial countries, in particular, have to address the root cause of protectionism and promote the expansion of world trade, based on the principle of comparative advantage.

The Arab countries have consistently cooperated with the international community. We have followed appropriate economic policies that have taken into account the well-being of the world economy and its interdependent nature. We have also suffered a serious deterioration in our terms of trade. Yet, we have not hesitated to adopt and implement, without delay, difficult measures to adjust and restore growth. Thus, we expect the Bank and the Fund to

be more understanding of the problems of the Arab countries and to support their economic and financial adjustment efforts. Additionally, like many other developing countries, we have recognized the need for sound economic policies and the importance of export diversification, particularly in countries dependent on a few sources of export revenue. Successful export diversification, however, requires free and open access to markets. Inadequate access to foreign markets has frustrated private sector investments in our region. Therefore, we call upon the international community to cooperate in promoting free and fair trade based on comparative advantage. Without such policies, it will be increasingly difficult to maintain the open trading systems now existing in many Arab and other developing countries.

Furthermore, it is essential that all countries, particularly the reserve currency nations, refrain from practices that impede capital movements and trade flows, including the freezing of foreign assets. Such actions not only present a threat to the international financial system but may also undermine economic and political relations among nations.

I turn now to the debt problem, which has preoccupied the international community for several years. We believe that it is important to improve on the debt strategy to make it more workable and to look for innovative approaches and viable options. The increased difficulty of ensuring adequate financing flows from commercial banks and the unfavorable global environment facing debtor countries necessitate, in our view, a cooperative and flexible attitude by all parties concerned.

The continued difficult situation in sub-Saharan Africa must be a matter of concern for the entire international community. The plight of the severely debt-distressed nations is well known. We support the efforts being made by the international community to address these serious problems. We also support the recent initiatives by the World Bank and the Fund in mobilizing additional concessional resources for the region, including the enhancement of the resources of the structural adjustment facility (SAF). Moreover, the related adjustment programs should be appropriate for the circumstances of these countries.

I would also like to draw special attention to the unsatisfactory situation regarding resource flows to developing countries as a group. The Arab donor countries have always extended high levels of concessional assistance to other developing countries and have continued to do so in spite of adverse economic and political circumstances. Arab assistance remains untied and continues to help a wide range of countries. It must be emphasized that, over the last decade and a half, this assistance has been unprecedented as a percentage of donor GNP. We therefore encourage the industrial countries to make every effort to enhance their official development assistance and move quickly to reach at least the target of 0.7 percent of their GNP, particularly in light of the substantial terms of trade gains. We also believe that it is now only natural that

the industrial countries provide adequate contributions to the enhancement of the SAF resources.

We support the enhanced role of the World Bank, and endorse a general capital increase for the Bank. We also hope that the MIGA Convention will enter into force on time. We also support the resumption of adequate SDR allocations; and we see a need for a substantial increase in Fund quotas. We agree that access limits should stay unchanged at this time and call on the Fund to be more flexible in implementing its access policy. Moreover, in view of recent developments in the prices of primary commodities, we attach particular importance to the compensatory financing facility as a very useful instrument for assisting those countries that experience fluctuations in their export revenues. However, for this facility to perform its role effectively, it is crucial that its unique features with respect to disbursement and conditionality be preserved.

In conclusion, it is important that all parties carry out their responsibilities effectively and without delay. We hope that these meetings will contribute toward achieving a more healthy international economic environment.

Statement by the Governor of the Fund for the United Kingdom

Nigel Lawson

I welcome the progress that we have made at these meetings on a number of issues of great importance. We have reaffirmed the Louvre agreement. There is now full support for an early and substantial general capital increase for the World Bank. And there is increasing recognition that within the general debt strategy, special action is required to help the very poorest and most heavily indebted countries, particularly in sub-Saharan Africa.

At the meetings of the Interim and Development Committees this April, I put forward a three-point proposal for assisting these countries, provided they pursue appropriate adjustment policies: the conversion of aid loans into outright grants; longer repayment and grace periods on Paris Club reschedulings; and reductions in the rates of interest on those reschedulings.

The Managing Director of the International Monetary Fund and the President of the World Bank have put forward complementary proposals for helping the poorest countries by concessional interest rates, including a substantial increase in the size of the Fund's structural adjustment facility (SAF). I support these proposals, and believe that heavy indebtedness should be a major factor in determining the allocation of funds under any enlargement of the SAF.

It is of the first importance that we make a real effort to reach agreement on all these proposals at the earliest possible date.

The U.K. Economy

I now turn to the experience of my own country during the past year. Since the sharp fall in the oil price in 1986, the growth rate of the U.K. economy, so far from slowing down as was expected, has actually picked up. At the same time, the growth rate for the major industrial countries as a whole has been below expectations. At first sight, this seems paradoxical. The industrial countries in aggregate were significant beneficiaries from lower oil prices, whereas the United Kingdom, as a major oil producer and exporter, stood to lose significantly.

What has happened is that the U.K. economy has adjusted more smoothly to the fall in oil prices than many thought possible. The latest Fund forecast puts U.K. growth at 3.4 percent this year—the fastest growth of all the major industrial countries. And U.K. manufacturing productivity, currently rising at about 6 percent, has continued to exceed expectations, thus containing the growth of unit labor costs.

The United Kingdom's strong growth performance has not been brought about by any fiscal stimulus. The public sector borrowing requirement has in fact been reduced to less than 1 percent of GDP. We have been able to bring down tax rates by maintaining a declining path for public expenditure as a proportion of GDP. Nor has there been any relaxation of monetary policy. Interest rates have been held at levels necessary to maintain sound anti-inflationary conditions. In short, it is the enterprise economy that has done the trick. One consequence of this improved performance has been a significant drop in the unemployment figure, which has fallen by 400,000 over the last 14 months.

The strong growth of U.K. output and demand has caused some to suggest that the U.K. economy is in danger of overheating, while others are forecasting a slowdown. Some manage to combine both predictions. But while, as in most countries, inflation is a bit higher than last year when the impact of falling oil prices was greatest, there has been no significant change in underlying inflationary pressure.

The United Kingdom is now well into its seventh year of steady growth at 3 percent a year. During that period there have been minor fluctuations, and after the slight spurt this year, I would expect something closer to the 3 percent average rate next year.

The Background to the Louvre

I now turn to the evolution of exchange rate policy. For the first 25 years after World War II, exchange rate stability was achieved through the Bretton Woods system. This formed a cornerstone of the postwar economic order, not least as a force for financial discipline. But it began to break down in the late 1960s, and by the early 1970s it had collapsed altogether. Thereafter, with countries pursuing divergent economic policies, and many suffering from high

and volatile inflation, a system of floating exchange rates was virtually inescapable. Indeed, many at the time believed this new flexibility to be desirable.

With hindsight, some of the arguments for free floating seem much less compelling. And the belief that markets would provide a stabilizing influence, through the operations of medium-term speculators, has not been borne out.

In particular, we have seen wild gyrations in the dollar that have clearly not been a reflection of economic fundamentals, which are essentially slow moving. Few could seriously argue that two deutsche mark to the dollar was "correct" in 1979, and again at the end of 1986, and yet that three deutsche mark to the dollar was "correct" in 1985. Moreover, these gyrations have damaged growth in world trade. Businesses have had to divert scarce management time and skills to coping with currency fluctuations, rather than improving company performance. And the major uncertainties about exchange rate movements inhibited risk taking and required a switching of resources at a pace that was wholly unrealistic.

The explanation for these gyrations in the dollar derives in large part from the nature of the foreign exchange markets. We now have global 24-hour markets in which turnover has increased dramatically, with only a small part of that related to commercial transactions. This presents particularly acute problems for the dollar, which still dominates the world's money markets. In 1986, on the London foreign exchange market, 97 percent of all transactions were in dollars.

Of course, all financial markets have a certain amount of speculative froth. But to function well they need some players to take a longer view, and so provide a stabilizing influence. In foreign exchange markets, they have been conspicuous by their absence.

This means that once the dollar starts to move in one direction, it can continue in the same direction for months and even years, even if there is a general consensus that the rate is out of line. This is what happened in 1984 and early 1985. Almost everybody agreed that the dollar was overvalued, and that, in the long run, it was bound to fall. But they continued to buy dollars in the belief that, in the short run, it would move even higher—which is, of course, what consequently occurred.

The result is that trends have been greatly magnified. Capital movements have generated fluctuations in the dollar; but equally, fluctuations in the dollar have themselves generated further capital movements. This is how exchange rates have often acquired a momentum of their own, which has not been reversed until they have reached extreme levels of over- or undervaluation.

Background to Plaza

It was a growing concern about this process that led a small group of us to

meet in the Plaza Hotel in September 1985. We shared three perceptions:

—first, that the gyrations in exchange rates had proved damaging;

—second, that the immediate problem was that the dollar was much too high; and

—third, that the time was right for the authorities of the major countries to give the markets a clear lead.

The Plaza agreement marked an important step toward a more managed system. In private, we discussed the scale of fall we saw as desirable, and although no figures were given in public, everyone was aware that we were looking for substantial changes. We agreed to cooperate to bring that about. And that agreement played an important role in securing a continuing fall in the dollar over the succeeding 15 months.

The Louvre

The Louvre accord earlier this year marked another important step forward—Plaza II, as I called it at the time to emphasize the continuity. By then, the broad objectives agreed at Plaza had been achieved. The yen and the deutsche mark had appreciated by as much as 50 percent or so against the dollar.

We agreed that, given the policies being followed, the dollar was by then broadly in line with economic fundamentals and that the interests of the world economy would best be served by a period of stability, to allow time for the major economies to adjust to the exchange rate changes that had occurred. We were not, of course, thinking in terms of rigid exchange rates, but we did discuss the scale of fluctuation, around the then current levels, which we would not wish to see exceeded. Figures were agreed in private, but not, of course, revealed in public.

In spite of widespread skepticism when it was first concluded seven months ago, the agreement has proved a success.

Managed Floating

The move to managed floating has been made possible by two fundamental changes.

—First, we have at last returned to a world of low inflation. The average inflation rate for the major seven economies has fallen from 12 percent in 1980 to about 3 percent today. In the process, inflation differentials have been narrowed considerably.

—Second, there is now a clear consensus among the major countries about the approach to economic policy. And we all agree on the need for a greater reliance on market mechanisms within the framework of a firm monetary and fiscal policy.

We have been able to make this regime work because:

—We have chosen the right time to give a lead to the markets. In this sense we have been working with, rather than against, the grain of the markets.

—We have been prepared to commit ourselves publicly to appropriate and consistent domestic policies.

—In particular, we have all been prepared in practice to give significant weight to exchange rates in the conduct of monetary policy.

—We have been prepared to back up our agreement with coordinated intervention, sometimes on a substantial scale.

—We have deliberately not revealed details of our arrangements. And we have worked within margins of a size sufficient to allow us the necessary tactical room for maneuver.

A Regime for the Future

I believe that we can and should use the experience we have gained to build a more permanent regime of managed floating. I do not see the past two years simply as a temporary phase. Our objectives should be clear: to maintain the maximum stability of key exchange rates, and to manage any changes that may be necessary in an orderly way.

Let me make it clear that I am not suggesting that we can or should return to Bretton Woods. That system was undermined by its rigidity; the margins were too narrow; it required a predictable and mechanical response from the authorities that made them an easy target; necessary realignments were postponed too long and, consequently, when they came, they were inevitably large.

For the future, it is important, therefore, that we continue to keep an adequate degree of flexibility in terms of the width of the bands within which currencies are able to fluctuate. And, if and when the time comes to adjust one of the rates, that adjustment should be made by moving the midpoint within the confines of the existing range. This means that the markets are not given a one-way bet, and the authorities retain tactical flexibility.

As I have already emphasized, what made the Plaza and Louvre agreements possible was that the countries participating were, and remain, in effect, members of an anti-inflationary club, with a clear commitment to taking whatever steps are necessary to curb their own inflation. It is vital that that commitment continue, individually and collectively. A resurgence of inflation in any individual country would make it difficult for that country to remain within the club.

At the same time, we must also ensure that there is no persistent inflationary (or for that matter deflationary) bias for the group as a whole. This can be helped by:

—the development of indicators for the group as a whole; these will be mainly financial but special attention should also be given to the trend of world commodity prices;

—a nominal framework for policy, in terms either of a path for GDP growth for the group as a whole, or one for the average inflation rate; and

—a medium-term perspective when setting out the path and in gauging actual performance; we should not become involved in an exercise in short-term fine tuning.

In recent meetings we have put a lot of effort into developing performance indicators for individual countries. I have to say that I have considerable doubts whether we can usefully take that exercise much further. I believe it would be far more useful to devote our efforts to monitoring the performance of the group as a whole, so that we can ensure that we maintain the correct noninflationary policy stance.

Current Account Imbalances

Some fears have been expressed that the Louvre agreement will be undermined by the persistence of current account imbalances between the major countries. I do not believe this need be so.

What we are seeing is not altogether surprising. It is the familiar J-curve effect, and although the imbalances remain large, trade volumes are adjusting.

In any case, there is no law that dictates that the current accounts of the major industrial countries should always be in balance. We have an integrated world economy and we encourage the free flow of capital and goods. Clearly there are limits to the accumulated external liabilities or assets that can be sustained without creating major anxieties for capital markets. But investment opportunities and savings propensities inevitably differ from country to country, and it is natural for this to produce substantial, and often sustained, capital account flows. These flows necessarily have their counterparts in current account surpluses and deficits.

The present combination of deficits and surpluses has emerged over several years during which the growth of domestic demand in the Federal Republic of Germany and Japan has been consistently below the growth of output, while in the United States it has been consistently above. The process of unwinding the imbalances requires a reversal of the differences between domestic demand and output in those countries. This is bound to take time to complete, but—and this is important—it has now begun.

It would be a serious mistake to seek a shortcut by a further dollar depreciation. It was undoubtedly necessary to correct the huge misalignment

of the dollar in 1985. But there is no case for going to the opposite extreme of an artificially low dollar. The benefits to the current account would be small compared to the damage to U.S. inflation and the dislocation to the world economy. The main lesson from recent years is that we should avoid exchange rate misalignments, not encourage them.

Conclusion

In conclusion, I believe that external stability should now complement the internal financial stability that we have already achieved. It will remedy a major weakness in the world financial order and provide a sounder basis for the prosperity we all seek.

Statement by the Governor of the Bank for Botswana

P. S. Mmusi

I am greatly honored to address this distinguished gathering as the spokesman for the African Governors of the World Bank and the Fund. On their behalf, I would like to congratulate Mr. Michel Camdessus on his appointment as Managing Director and Chairman of the Executive Board of the International Monetary Fund. He is taking the leadership of this institution at a time when increased emphasis on growth-oriented adjustment programs for developing countries experiencing economic and financial difficulties is considered of paramount importance to help them grow out of their economic and debt-servicing problems. We are confident that his vast knowledge of developmental issues will enable him to give the necessary impetus to the institution to discharge this task.

Our meeting last year took place against the background of a generally disappointing world economic performance in 1985 and uncertainties about the immediate future. An overview of the economic and financial developments in 1986 indicates a continuation of such poor performance and a persistence of the uncertain outlook for the world economy. World output growth declined for the second year in a row; large fiscal imbalances persisted in industrial countries, particularly in the United States; exchange rates continued to be unstable; and though interest rates declined, they remained very high in real terms. Likewise, although world trade expanded by about 5 percent in volume terms compared with 3.2 percent in 1985, the most salient features in trade developments in 1986 were the unprecedented deterioration in the terms of trade of developing countries and the growing protectionist pressures in industrial countries, which contributed to the aggravation of the financial difficulties of developing countries. As in 1985, the only bright spot in this rather bleak picture was the success achieved by both industrial and

developing countries in the fight against inflation: the rate continued to recede in the former and it was reduced by more than one fourth in the latter.

This mixed performance of the world economy reflected to a large extent that of the industrial countries, whose economic growth continued to slow down, declining from 3.0 percent in 1985 to 2.4 percent in 1986. The external imbalances of this group of countries, in particular the three largest ones, widened. The surplus countries strengthened their current account positions while deficit countries recorded larger deficits. It is all the more worrisome to note that these developments occurred despite a sharp decline in oil prices, a substantial exchange rate realignment among the major currencies, and increased efforts at international coordination of the economic policies of the most industrialized countries. How to reverse the pattern of current account developments in industrial countries without creating economic recession and disruption of exchange markets is a major challenge facing the international monetary system. It is the responsibility of the industrial countries to meet this challenge by embarking on coordinated and appropriate economic and financial policies that could dispel some of the uncertainties clouding the short- and medium-term outlook of the world economy.

The ability of the developing countries to achieve and sustain an expansion of their economies would depend critically on the ability of the industrial countries to create a favorable economic environment conducive to world economic expansion. The marked deterioration of the internal and external financial imbalances of the developing countries has brought to the fore the extent of the impact of external developments on the developing countries' economic and financial performance and their capacity to service their debt. Though exports from developing countries expanded by 8.2 percent in volume terms in 1986, it is worth noting that export unit values, in U.S. dollar terms, weakened by 13.3 percent. As import unit values increased by 4.2 percent, the terms of trade deteriorated by almost 17 percent, contributing to a rise in both the ratios of their external debt and of their debt service to exports of goods and services. This underscores the urgent need for the industrial countries not only to endeavor to promote an external environment conducive to their own economic growth and hence that of developing countries but also to ensure remunerative prices for the exports of these countries. The African Governors welcome the renewed commitment of the seven most industrialized countries to intensify their efforts at coordinating their economic policies to foster balanced economic growth and to stabilize the exchange rates of their currencies. However, we are of the view that in the continued absence of adequate supporting policies, this commitment will do little to improve the external environment. We are also of the view that industrial countries should open their markets to developing countries to help sustain the export diversification policies being implemented. We note with great concern that while many of our countries are liberalizing their exchange and trade systems at high political and social costs, under Fund-supported adjustment programs, trade restric-

tions and subsidies in various guises remain in force and protectionist pressures are growing in industrial countries. It is in the interest of the world trading system as a whole that policymakers in these countries ought to resist such pressures and roll back existing trade restrictions.

Before I turn to the policies and activities of the Fund, I wish to share with you some highlights of the economic and financial developments of our continent and the views of African Governors on the problems facing it.

In 1986, the deterioration in the standard of living of our populations accelerated, with the decline of per capita real GDP continuing at a faster pace. The external current account deficit of African countries (excluding official transfers), which amounted to $4.2 billion in 1985, worsened to about $15 billion in 1986, and the servicing of their external debt claimed more than 35 percent of their exports of goods and services in 1986. Moreover, the progress that African countries made in 1985 toward fiscal consolidation was reversed in 1986 when the aggregate deficit of the financial operations of their central governments, as a percentage of GDP, increased to 9.1 percent, from 7.2 percent in 1985. It would be unfair to infer that inadequate internal policies or a relaxation of adjustment efforts were responsible for such a performance in 1986. It is well known that most African countries embarked on far-reaching adjustment programs which, in a number of cases, were supported by the Bank and the Fund. Indeed, of the 30 stand-by arrangements and 9 arrangements under the structural adjustment facility (SAF) in effect with the Fund as of December 31, 1986, 20 stand-by arrangements and 6 arrangements under the structural adjustment facility were implemented by African countries. It should be borne in mind that these adjustment programs were being implemented at a time of the worst terms of trade deterioration in Africa's recent history, an important factor that has contributed significantly to the poor economic performance recorded in 1986. The continued deterioration in our economies has brought many African countries to the verge of financial collapse, forcing a number of them to suspend payment of some of their debts.

As we stated on the occasion of our last gathering, Africa's debt problems should be considered against the background of its ability to repay; an ability which is very limited and, moreover, is aggravated by the continuous fall in the prices of its major export commodities. The peculiarity of Africa's debt problem deserves increased attention from the international financial community. The current approach to the debt problem, consisting mainly of annual rescheduling of debt obligations has, at best, only succeeded in buying time, leaving the real problem unsolved. Clearly a new approach is needed to find a bold, imaginative, and lasting solution.

In this connection, African Governors have called for an international conference to discuss practical proposals for solving the African debt problem. Without anticipating the outcome of that conference, the modification of rescheduling rules, retroactive adjustment of terms, concessionary financing

of public debt, moratorium on interest similar to IDA lending conditions, the setting on a multiyear basis of a percentage of export earnings to be used for debt service, and an increase in concessional flows might be included in the search for solutions to the problems of debt and financing of growth.

In the meantime, African Governors welcome and express their support for the proposal put forward by some industrial countries at the April Interim Committee meeting for solving the debt problem of the poorest sub-Saharan African countries. We are pleased to note that this proposal has had the support of the Heads of States and Governments at the Venice summit and we hope that its procedures could be worked out promptly for early implementation. However, we are of the view that this approach should be applied to all African countries. As recent developments in primary commodity markets have shown, even the most export-diversified African economies are not immune to acute payments crisis. In view of the widespread financial difficulties facing developing countries, the African Governors would urge multilateral institutions to seriously consider, like other creditors, a more flexible approach in dealing with the financial obligations due to them. Beyond these temporary actions to relieve African countries from their debt burdens, a durable solution to the debt problem lies in sustained growth and an adequate remuneration for export commodities. In this respect, industrial countries should be particularly mindful of the impact of their agricultural policies on the prices of agricultural raw materials of African countries. For their part, the African countries are vigorously implementing their Priority Program for Economic Recovery to bring about the desired economic growth.

This brings me to the "United Nations Program of Action for African Economic Recovery and Development, 1986–1990," which was adopted by the General Assembly of the United Nations in May 1986. At the 1986 Annual Meetings, we called on the international financial community, donor countries, and multilateral institutions to provide the external financial resources contemplated under the program in order to ensure its successful implementation. While it may be too early to take stock of its execution, it should be noted that African countries have lived up to their commitment. Structural adjustments and policy reforms have been put in place and domestic resource mobilization is being intensified. However, disbursements by creditors and donors have so far fallen short of expectations, and net lending by commercial banks ceased, with African countries repaying US$1.8 billion in 1986. More disappointing was the contribution of the Fund. It is indeed very disappointing to note that at a time when African countries are in dire need of financing, the Fund is withdrawing resources from the continent. In 1986, the Fund received net transfers amounting to nearly SDR 1 billion (SDR 0.8 billion) from African countries, and it is expected to receive an equal amount in 1987. This pattern of resource flows is untenable and should not be allowed to continue. The Fund is urged to find ways to reverse this trend and contribute more positively to the endeavors of African countries. In this context, we note that

the Fund's Managing Director has recognized this and has taken steps to bring it to the attention of the major industrial countries.

On Fund conditionality, we continue to hold the view that conditionality need not be tightened to ensure the success of a Fund-supported adjustment program. On the contrary, conditionality implemented reasonably and flexibly to take into account the circumstances in which adjustment is taking place is likely to be more successful. Unfortunately, the experience of most African countries with Fund-supported programs has so far been that the institution has pushed the application of its conditionality far beyond the limit of social tolerance, thereby creating social unrest, endangering the political fabric of these countries, and calling into question the reforms supported by the Fund. These programs, which have long ignored the human element, should now increasingly take into account the social consequences on the poorest segments of the population. Therefore, Fund-supported programs should henceforth target growth rates that would at least ensure the maintenance of standards of living in order to smooth the adjustment process and make it socially and politically acceptable. It goes without saying that priority should be shifted from contraction-oriented adjustment geared mainly at correcting external imbalances toward effective growth-oriented adjustment and an improvement in per capita incomes.

Concerning the operations of the structural adjustment facility, its creation in March of last year came with the expectation that the Fund would devote the needed attention to growth in the adjustment programs that could be supported with its resources. However, we warned that unless structural adjustment facility resources were supplemented adequately with additional resources from other sources, the new facility would be of limited help to the adjustment efforts of eligible countries. After more than one year of operation, we are disappointed to note that these additional resources have been very slow to materialize. In this connection, the initiative of the Fund's Managing Director to enhance the resources available to the structural adjustment facility are commendable. We encourage donor countries and the Fund to expedite the financial arrangements for releasing the additional resources. But it is clear that in view of the magnitude of the financing needs of the SAF-eligible countries, the expected additional resources will be insufficient. Other initiatives are needed to ensure the availability of resources commensurate with these financing needs. Another cause for concern is that negotiations for use of SAF resources have proved to be sometimes protracted and more complicated than negotiations for stand-by arrangements and have led to cross-conditionality with the World Bank. Given the fragility of the economies of SAF-eligible countries and their low income levels, the need for streamlining and simplifying procedures under the structural adjustment facility cannot be overemphasized. However, we are deeply concerned about the tendency to deny SAF-eligible countries access to the Fund's general resources.

We understand that the Executive Board is conducting a general review of the compensatory financing facility to adapt it to suit the present circumstances of the world economic environment. This review is timely and welcome, as it is taking place at a time when developing countries are experiencing large export shortfalls due to factors beyond their control. Yet in recent years we have witnessed a tightening of conditionality and a gradual reduction of access under the compensatory financing facility. In 1986, the conditionality has been further tightened with drawings in the upper tranche made conditional upon approval of a stand-by arrangement. Such tightening of conditionality and reduction of access are not only inimical to the purpose and spirit of the compensatory financing facility but are also ill-timed. We urge the Executive Board to take the opportunity presented by the review to reverse the recent trend in conditionality and link access under the compensatory financing facility to the amount of the calculated shortfalls. Since the integration of the decisions on the compensatory financing of export fluctuations and the compensatory financing in the cost of cereal imports has constrained members' use of the cereal facility, we also urge the Executive Board to separate the two facilities. We have noted with interest the French proposal to lengthen the repayment period of, and introduce some concessionality in, compensatory financing facility drawings by the low-income member countries. We strongly support this proposal and look forward to its early implementation.

On the issue of SDR allocations, the question has for many years been in a stalemate because of the opposition of a few member countries. This situation is regrettable. However, we warmly welcome the Managing Director's ongoing efforts to ascertain through individual contacts the existence of a broad support among the membership needed for a resumption of SDR allocations. We encourage him in this endeavor and we would continue to urge those still opposed to the allocation of SDRs to make a gesture in the spirit of international cooperation. We also welcome the series of studies under way on the characteristics of the SDR with a view to enhancing its attractiveness as a reserve asset. We hope that this would provide those opposed to the allocations of SDRs with an additional reason to change their position.

We note that work on the Ninth Review of Quotas has now been initiated. This is indeed a welcome development. It is the expectation of African Governors that this long exercise will eventually lead to a substantial increase in quotas that could place the Fund in a strong financial position to support the adjustment efforts of its member countries. Regarding the distribution of the expanded size of the quotas, it is also our expectation that its allocation will be really meaningful to reflect the relative access of African countries to Fund resources. On this important subject of access limits, we further note that against the difficult global economic outlook that has been described, we feel disappointed that the present access limits, including those of the compensatory financing facility, would only be maintained. This action does not send an adequate signal to the international capital markets.

We are pleased to note that the Fund has made progress in defining economic indicators that would enhance its multilateral surveillance role. We are further pleased to learn that the seven most industrialized countries support the use of such indicators as a monitoring device for their economic and financial performance. We regret that these countries could not agree on the principle of using divergences from the indicators to trigger consultations in order to discuss corrective measures as required. Nevertheless, we are encouraged to note that the Ministers of the Group of Seven will monitor economic developments in close cooperation with the Managing Director of the Fund. We hope that this would contribute to a lessening of the asymmetry in the Fund's surveillance.

The African Governors welcome the increased attention that the concept of "growth-oriented adjustment" is getting from the international community. Although a monetary institution, the Fund has an important role to play in the promotion of a sustainable noninflationary growth as stated in its Articles of Agreement. In this context, the African Governors strongly support the recommendations of the Group of Twenty-Four report, "The Role of the Fund in Adjustment with Growth," that has been submitted to the Interim Committee. Given the Fund's poor record in helping developing countries to achieve growth under programs supported with its resources, a new approach to growth in program design and implementation seems appropriate through the generalization of the use of extended arrangements. We, therefore, urge the Executive Board to consider ways of implementing the Group of Twenty-Four recommendations.

In spite of the recent efforts by industrial countries at coordinating their economic policies, the African Governors continue to believe that a reform of the international monetary system is necessary in order to cope with the shortcomings of the present system. We would like to reiterate the call for the creation of a ministerial committee with representatives drawn from both industrial and developing countries to plan for a conference on the reform of the international monetary system. . . .

In conclusion, I wish to express our deep concern over the deterioration in the world economic situation and more particularly that of the African countries. The economic crisis through which the African countries are passing has been aggravated by the slump in raw materials prices, the continued deterioration in the terms of trade, intensified protectionist pressures, the worsening of the debt burden, and the decrease in capital flows to our countries. These difficulties faced by our countries stem in large measure from difficult international economic and financial conditions.

I wish to affirm clearly the resolve of the African countries to pursue and step up their adjustment efforts without worsening the poverty that currently afflicts our peoples. But in the absence of effective support on the part of the international community, our countries will be unable to pursue the reforms

they have undertaken because the social costs are soaring and are even threatening the stability of our region. In light of this serious situation and the adoption of the UN Program of Action for African Recovery and Economic Development to which I referred earlier, I should like, on behalf of the African Governors, to appeal to the international community and, more particularly, the World Bank and the International Monetary Fund, to give their financial support to the recovery and development programs of the African countries so as to halt the deterioration of the economic situation and, above all, foster and accelerate the growth of Africa.

Statement by the Governor of the Fund and the Bank for Brazil

Luiz Carlos Bresser Pereira

It is an honor to address this meeting of the Governors of the International Monetary Fund on behalf of Argentina, Bolivia, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Philippines, Suriname, Trinidad and Tobago, Uruguay, Venezuela, and my own country, Brazil.

In the 1980s, external debt, which has risen to a level of about \$400 billion in Latin America, has become the principal concern of our countries. The feasibility of the strategy adopted to deal with this problem—and which was initially conceived as a way of getting through a supposedly short period of illiquidity in the debtor countries—depended on three basic premises: first, adjustment in debtor countries; second, vigorous growth in the economies of the industrial countries coupled with increased international trade; and third, adequate financing. These premises were crucial for the debtor countries to be able to reduce domestic imbalances, expand their exports, and, at the same time, obtain the financing required for investments and continued medium- and long-term economic growth, without excessively increasing the total debt. Unfortunately, only adjustment in debtor countries took place; the other two conditions indeed did not materialize. The economies of the industrial countries did not expand as forecasted, our exports did not increase as necessary, and external financing dropped from an average of \$30 billion a year in the 1979–82 period to an annual average of just \$6 billion in the past four years.

Thus, instead of fostering adjustment with growth, our countries have had to embark on a painful process of adjustment with recession and inflation, based on cutbacks in consumption and investments and on successive real devaluations of our currencies. All of this has resulted in enormous sacrifices for our population and in increasing political loss for our governments, since the results from these policies have been recession, unemployment, and dramatic reductions in living standards.

As if the sacrifices of the past were not enough, cutbacks in the rate of investments, caused fundamentally by growth in real transfers and reductions in the capital flow, have seriously jeopardized growth potential and, consequently, debt service capacity.

From the point of view of the debtor nations of Latin America, the evolution of the international situation has been extremely adverse. Thus, it is no surprise that, as a consequence of these factors, an increasing number of countries in the region have been forced to limit or to suspend external debt service payments.

As a matter of fact, full payment of interest has been shown to be incompatible with sustained growth, control of public finances, and price stability. In other words, and paradoxically, debt service became incompatible with the adjustment process that was supposed to lead to a solution of the debt problem. This fact can be shown in several ways.

—Transfers of real resources—measured by the trade and nonfactor service surpluses—required to pay the interest bill have depressed investment capacity. From 1983 to 1985, average growth in real transfers from Latin America (5.3 percent of GDP) was roughly equivalent to the average drop in investments (5.8 percent). This means that the countries of the region have been postponing essential investment to service their external debt. The investment level in Latin America has fallen by 40 percent.

—In many Latin American countries, the major share of the external debt is held by the public sector (70 percent in the case of Brazil). In such cases, interest payments require domestic transfers from the private to the public sector to enable the government to acquire—from the export sector—the foreign currency needed to service the debt. Normally, these transfers require additional internal borrowing, thus raising domestic interest rates and, consequently, the public deficit. On the other hand, interest on the public external debt represents a large share of the public deficit. In Brazil, for instance, public deficit, in terms of public sector borrowing requirements, was 3.9 percent of GDP in 1986, while interest on the external public debt represented 2.3 percent of GDP. In other Latin American debtor countries, interest payments, as a percentage of GDP, reached even higher figures. In other words, interest on the public external debt accounts for more than 50 percent of the public deficit.

—The attempt to expand trade surpluses through successive real exchange rate devaluations has led to predatory competition among debtor countries and to further deterioration of the terms of trade. Devaluations have two additional negative effects: they tend to increase the public deficit, since a larger amount of local currency is needed to pay for the same amount of interest; and they have a perverse impact on price stability. Actually, exchange devaluations tend to accelerate inflation.

These factors certainly explain why, in spite of an enormous adjustment effort, the results have been far below expectations, and a return to the system of voluntary loans is beyond the reach of a large majority of debtor countries. Banks have already limited—in a very inadequate manner—their efforts to finance part of the interest owed to them.

The facts clearly demonstrate that the strategy pursued since the outbreak of the external debt crisis has failed. The strategy merely avoided an even greater crisis in the international financial system by dangerously postponing a definitive solution. For the developing countries, it represented stagnation and inflation; for the industrial countries, loss of exports. Only the creditor banks have been strengthened, reducing their exposure to the highly indebted countries. But even for them the situation began to deteriorate, as the financial community realized that the debt strategy had failed, that all debt ratios had deteriorated, and, consequently, that the paying capacity of debtor countries was diminishing instead of increasing. The emergence of larger and larger discounts in the secondary market and the valuation of bank shares in proportion to their exposure to highly indebted countries have been the result of this realistic acknowledgment.

Today, the challenge faced by creditors and debtors alike is that of finding a long-term, definitive solution to the external debt problem, a solution that recognizes the need for a direct relationship between the debt service and the effective capacity of our nations to pay. No longer can a solution be postponed, nor should merely palliative alternatives to the present strategy be sought.

There is a growing consensus on the need for, and the feasibility of, new approaches to the debt problem. I believe that these Annual Meetings of the IMF and the World Bank initiate a new phase in the discussion of the debt problem. The first phase, 1983–84, was the phase of austerity. The second phase, 1985–86, were the years of adjustment with growth and structural reform. In 1987 we begin a third phase where reduction of the debt will be the main emphasis. Responsibility for finding a formula that will lead to a solution does not fall only on the debtor nations. If the industrial world does not shoulder its responsibility for reducing its structural imbalances, fostering international economic growth, and clearing away protectionist barriers, no truly lasting solution can be found.

This is an area in which a more symmetrical Fund surveillance is needed. The next GATT negotiations also have an important role to play in ensuring increased access by Latin American exports, particularly those from smaller countries, to industrial country markets.

On the other hand, if we are to find an adequate long-term solution to a debt that already exceeds the payment capacity of the debtor countries, it is essential that, in addition to the adoption of austere, responsible policies of

internal economic adjustment, the interest rates paid by the debtor countries be reduced and that longer maturity terms be set for payment of the debt.

We cannot, however, wait till the moment when market interest rates will decline. There are no prospects that this might occur in the medium term. Thus, creditors and debtors will have to come to an agreement on real and nominal interest rate levels that are compatible with the effective payment capacity of each country. In most cases, what these countries require are real interest rates in line with historical levels.

The reduction of interest rates, longer maturities, and the establishment of adequate credit lines to the debtor countries will make possible reduced transfers of resources. It will thus be possible to achieve the minimum growth rates needed by each country, according to particular circumstances, especially the requirements of its labor market. This is also the way to achieve a gradual improvement of debt indicators.

To achieve these objectives, it is necessary to restructure debt so as to bring it into line with the real payment capacity of the countries in question. A return to the market will only become reality when the debt stock has been brought down to levels which are compatible with medium-term payment capacity.

The market judgment is that part of the existing debt, from both middle- and low-income countries, is not worth its nominal value. This new market reality opens the way for the adoption of new instruments, such as buy-back mechanisms and debt-into-equity conversions, which will permit a sharing of the discount between debtors and creditors.

Another innovative mechanism for an effective reduction in total debt is the gradual conversion of this debt into bonds. This is a promising option. The conversion bonds should have full face value, a fixed interest rate, and the assurance that there will be no restructuring of the principal nor new money requests for the payment of interest. These bonds would be subscribed on a voluntary basis, in accordance with the convenience of each bank. If these bonds receive limited but effective guarantee for payment by government agencies or multilateral banks, their market position would be enhanced and the long-term solution to the debt problem would soon become reality.

For countries that are not in need of debt rescheduling, there is a clear need for improved access to international capital markets at more reasonable lending terms and conditions. In the present situation, adequate external financing is a condition for internal economic stabilization and adjustment to external realities. It is, therefore, essential that government and multilateral credit agencies provide satisfactory financing for the economic and investment programs of the developing nations.

In this respect, Latin American countries consider that it is now time for a review of some Paris Club procedures. There is need for a more flexible approach also in regard to official debt rescheduling, particularly as far as the

requirement of formal Fund involvement is concerned. Countries that are heavily indebted to official creditors need multiyear reschedulings and longer maturities. Interest rates on restructured debt should be reduced. Official agencies should shorten the time for resuming coverage and improve terms and conditions for new loans and guarantees.

There is hardly any reason why, in the midst of a crisis of such magnitude, multilateral financial institutions should incur negative net disbursements. In the case of the Fund, this fact is aggravated in part by the imposition of certain conditionalities that little suit the problems and needs of the debtor nations. The challenge faced by the Fund today is that of playing a more active role in providing financial support to growth-oriented adjustment programs. To that end, quotas need to be increased, as well as the developing countries' share in Fund quotas.

Growing government participation in the solution of the problem seems today inevitable and is only a question of time. The Consensus of Cartagena, which expresses the position of 11 Latin American countries, as well as the Group of Twenty-Four have dealt with the subject and offered many suggestions of both a conceptual and a technical nature, some of which are already being adopted in the negotiations now under way. Brazil, Argentina, and Mexico, which recently joined together into a new G-3 group, have also outlined some principles and mechanisms that should be taken into account in future negotiations.

It should be mentioned that the Japanese Minister, Todashi Kuranari, has recently proposed the creation of an independent high-level group of persons of wisdom with the support of interested countries and relevant international organizations to examine ways and means of encouraging the flow of financial resources to the developing countries. This could certainly be a useful instrument, in that it would make possible a joint analysis of the problem and discussions aimed at a lasting solution.

As an important document issued by the Vatican Commission on Justice and Peace acknowledges, "Debt-servicing cannot be met at the price of the asphyxiation of a country's economy, and no government can morally demand of its people privations incompatible with human dignity. A decrease in interest rates, the capitalization of payments above a minimum interest rate, a rescheduling of the debt on a longer-term basis, national currency payment facilities . . . are all concrete measures to be negotiated with the debtor countries in order to lighten the debt service burden and assist in growth recovery." The price to be paid for the servicing of the external debt cannot be recession, unemployment, or hunger, nor can it be the threat to freedom and to the consolidation of democracy in Latin America.

In conclusion, a few words about the economy of my country, Brazil. In the first half of this year, Brazil was hit by the deepest financial crisis of its

history. The Cruzado Plan brought in its wake high rates of inflation, recession, the insolvency of a large number of business firms, balance of payments disequilibrium, and an interest payment moratorium on medium- and long-term debt to private banks.

To a large extent, the crisis is now overcome. Inflation is reasonably under control, overheating of the economy has been halted while recession has been avoided, the financial crisis has been overcome, and large trade surpluses have been obtained. This was possible through a combination of a new price freeze based on the theory of inertial inflation and a set of measures to control the public deficit and to avoid a new wave of excess demand. In order to adjust the economy, industrial production is expected to grow 3 percent this year, as compared with 10.9 percent in 1986.

After these emergency measures were adopted, including two real devaluations and a price freeze, a macroeconomic control plan was adopted in July. The basic objectives of the plan are GDP growth of between 6 percent and 7 percent in the coming years, an annual trade surplus in the range of $10 billion, and a steady decline in the public sector deficit. The basic growth strategy is one of increased public savings in order to liberate private savings to finance expansion in private investment. The basic obstacle to attainment of this growth is the burden of internal and external public debt interest payments on the government budget. Another basic constraint is external debt-related transfers of resources. These resources represent approximately 3 percent of GDP and reduce the nation's investment capacity by the same proportion.

It would be misleading, however, to blame all Brazilian problems on the external debt. We have internal problems and constraints. The danger inherent in populist policies is always present. The uneven distribution of income facilitates speculative profits that the fiscal system is unable to tax. Excess consumption by a small segment of society coexists with the precarious economic and social conditions of the majority of the population. Sound internal economic policies and structural reforms are a permanent challenge for the Brazilian Government.

Brazil has no intention of confronting its creditors. Much to the contrary, the nation's intention, on the internal front, is to ensure the development process and price stability, while—on the external front—seeking its reintegration into the international financial community of which it has long been a part. These are the two objectives that will guide our negotiations of the external debt, in the pursuit of creative and long-term solutions. It would be a mistake to imagine that it is the activity of a few radicals in Brazil that hampers a further integration into the international economic system. These elements do not carry such weight. The great obstacle to Brazil's further integration is an exceedingly large external debt and the rather unimaginative and less-than-daring manner in which the creditor countries have sought to resolve it.

Statement by the Governor of the Fund and the Bank for the United States

James A. Baker III

Two hundred years ago, the representatives of the 13 American states gathered in Philadelphia to establish a common Constitution founded on individual rights and responsibilities. In much the same vein, we, as representatives of the global community, share similar needs and responsibilities that transcend our particular borders and require a strengthened framework for cooperation for the good of us all.

Our tasks are threefold and interrelated: to build on the progress already achieved in strengthening the process of international economic policy coordination; to achieve higher, sustainable growth among the developing nations; and to improve our international financial institutions.

Strong leadership from the Bank and the Fund in accomplishing these tasks is vital. A reorganized World Bank under the able leadership of President Barber Conable stands ready to expand its role in assisting the developing nations, while in a short period Michel Camdessus has demonstrated his broad capacities in guiding the Fund as its new Managing Director.

Improved International Policy Coordination

The current process of economic policy coordination evolved gradually over the last two years along a steady path, pointing toward greater stability and predictability in our international monetary arrangements. It had its roots in a broad consensus that volatile exchange rates were contributing to large trade imbalances, distorted investment, and a growing protectionist threat worldwide.

The September 1985 Plaza agreement represented a major turning point in our efforts to promote a sound world economy. Too often in the past, the major industrial countries had reviewed the performance of their individual economies with little consideration of the interaction among them. At the Plaza, we revitalized the Group of Five by agreeing on the direction that national policies should take, and by entering into new arrangements to facilitate exchange rate adjustments to reflect more fully underlying economic fundamentals.

The success of the new efforts created a momentum to move further along this course. At the Tokyo summit, the Heads of State and Government agreed on a framework for a political mechanism for conducting multilateral surveillance of their economies utilizing economic indicators. Further, a new group was formed, the Group of Seven, that was symmetrical with summit structure. This brought to bear on the coordination process the necessary political leadership at the Heads of State and Government level. It also created a direct link between the formation of domestic policies and the international coordination process.

The Louvre accord represented another milestone. We agreed upon a strengthened coordination process involving use of medium-term objectives and performance indicators. Furthermore, we made specific national policy commitments, and agreed to cooperate closely to foster exchange rate stability.

In April 1987, we initiated the new coordination process at a Group of Seven meeting in Washington, where we expanded and refined the Louvre accord. At the Venice summit, the Heads of State and Government endorsed these agreements, signaling full support by their governments at the highest levels. This past weekend, the Group of Seven reaffirmed their commitments to the policy directions set forth at the Louvre, including continued cooperation to foster stability of exchange rates.

The process is now firmly in place. Commitments are being met and progress is being achieved in addressing global economic problems.

In fiscal 1987, the U.S. budget deficit has been reduced by over $60 billion, a decline of 1.7 percent of GNP. Over the past four years, in fact, the United States has reduced its deficit by 2.7 percent of GNP—the largest deficit reduction of any of the major industrial countries over a comparable period.

Our other economic signals also remain upbeat. The current expansion is on the verge of becoming the longest peacetime expansion in U.S. history—an expansion that has taken place without a resurgence of inflation. Unemployment is down and jobs are up. Our trade deficit, although still large in nominal terms, has begun to decline in volume terms.

Other major industrial countries have also recognized their obligations. Japan is implementing a major stimulus package and domestic demand is strengthening, which should help to reduce its trade surplus. Germany has accelerated its tax reform efforts and agreed to reconsider domestic policies if growth falters.

These efforts are having their intended impact. Growth prospects are improving. Trade imbalances are showing signs of coming down, and exchange rates have been more stable.

This progress does not mean that we could or should stop seeking further improvements. Imbalances remain large and growth in Europe remains weak. We must follow through on earlier commitments and take additional steps as needed. At the recent Group of Seven meeting, we committed to do just that. In the United States, we recognize the need to continue our deficit reduction efforts in the United States in fiscal year 1988 and beyond. The President's decision this past weekend to sign the recent Gramm-Rudman-Hollings legislation will reinforce progress in reducing the budget deficit. Germany, Japan, and other surplus countries must also do their part by following policies which will enhance economic growth without retriggering inflation.

And it is critical that each of us works to preserve an open trading system. The imposition of protectionist measures at this time could undermine the progress we have made so far. The U.S. Administration remains resolute in its opposition to protectionist trade legislation. As President Reagan made absolutely clear yesterday, he will veto any protectionist legislation. Others must commit to fair trade policies that will buttress public support for an open trading system.

We have agreed that we should be concerned about the predictability and stability of exchange rates. Our coordination process utilizing indicators takes this into consideration. It is equally important that the policies resulting from the coordination process not be inflationary. It would be unfortunate if our efforts to foster exchange rate stability among currencies led to *stable* currency relationships—but in a context of *inflationary* economic policies that reduced the real value of all currencies.

Accordingly, the United States is prepared to consider utilizing, as an additional indicator in the coordination process, the relationship among our currencies and a basket of commodities, including gold. This could be helpful as an early-warning signal of potential price trends.

We are proposing consideration of a commodity price indicator as an analytical tool and an improvement to our coordination process, to be used in conjunction with the other measures of economic performance—such as growth, external imbalances, and exchange rates—in reaching judgments about policies and performance.

Coordination is a step-by-step process, and we should be willing to consider additional refinements as we move forward.

The major industrial economies are not the only ones with an obligation to the world economy. It is time that South Korea, Taiwan Province of China, Hong Kong, and Singapore also help preserve the open world trading system. It is critical that they open their markets where restrictions remain and allow their currencies to reflect underlying economic fundamentals.

The International Debt Strategy

I would like to turn now to our cooperative efforts to address international debt problems. The "Program for Sustained Growth" that we have pursued since Seoul remains the only viable, mutually acceptable approach to solving world debt problems.

Its basic principles remain as important and valid today as when initially proposed. The first is the central importance of economic growth. Second, in order to promote growth, market-oriented policy reforms within the debtor nations are critical. Third, to support these reforms, additional capital is needed in the form of equity, debt, and the repatriation of flight capital. And fourth, each case should be dealt with on its own merits.

Considerable progress has been made under this approach. The debtor nations have made substantial efforts to restructure their economies along more market-oriented lines. As a result, for the 15 major debtors as a whole, GDP growth is now in the range of 3.7 percent, the best in six years. Export earnings are projected to recover strongly in 1987–88, while imports this year are expected to be the highest since 1982. Capital flight has been reversed in several countries, and interest-to-export ratios are expected to fall to 27 percent this year compared to 31 percent in 1981.

The Bank and the Fund have provided sound policy advice, made $16 billion in new loan commitments since Seoul, and catalyzed financial support by other creditors. Over the same period, official creditors have rescheduled more than $17 billion in outstanding debt, including both principal and interest. And the commercial banks have committed nearly $10 billion in new loans, restructured approximately $110 billion in outstanding debt, reduced spreads, and provided longer grace periods and maturities.

Nevertheless, problems remain. Reductions in commodity prices and export earnings in 1985–86 have worsened debt-to-export ratios for some. The recent firming of interest rates and continued strong protectionist pressures are both matters of serious concern.

The debt strategy provides a flexible, case-by-case framework for responding to individual debtor's needs and changes in the global environment. We should not be attracted by generalized debt relief schemes. They do not really offer significant short-term relief, and they pose major long-term risks to the debtors. They also ignore the reality that many debtors have inherently strong economies with unlimited potential. Their course into the twenty-first century must be built upon increasing their trade and financial linkages with the rest of the world, not undermining them.

We all need to do more to enhance the progress already made under the current strategy. To strengthen it further, we should further develop the "menu" approach, strengthen the Fund's ability to promote growth, and initiate negotiations on a World Bank general capital increase.

The "Menu" Approach

Last spring, I suggested the development of a "menu" of financial options to facilitate commercial bank financing packages.

Permit me to elaborate today on the types of instruments that should be considered, where appropriate, for such "menus."

—*Trade and project loans* can channel more funds to the private sector, encouraging imports and providing banks with more easily identifiable returns.

—*On-lending* provisions also help to provide funds for productive use by private sector borrowers.

—*New money bonds* could have some of the characteristics of a senior claim, and therefore may be more attractive to banks in new money packages or to reduce the stock of debt.

—*Notes or bonds* which are *convertible into local equity* can help reduce debt service burdens and provide a boost to domestic production.

—*Exit bonds* can permit banks with smaller exposures to "exit" from future new money obligations, helping to streamline financing procedures.

—*Debt/equity swaps* help reduce both debt and debt-servicing burdens, while improving the debt/equity mix in foreign obligations.

—*Conversion of debt paper* to local currency for use by *charitable organizations* can provide some limited benefit.

—Limited voluntary *interest capitalization* may also be appropriate in certain selective cases, particularly for small debtors.

—Finally, general *balance of payments loans* will, of course, continue to be an essential component of virtually all new money packages.

More can be done to develop "menu" options—by the debtors themselves, by commercial banks, by the international institutions, and by creditor governments. For example, we are now trying to identify possible regulatory impediments which might lie in the path of "menu" items. The Federal Reserve Board recently announced measures that will facilitate greater use of debt/equity swaps. Additional steps in this and possibly other areas are under consideration.

International Monetary Fund Policies and Facilities

The Fund has played a central role in the debt strategy, and we must ensure that it will be able to continue this role as long as debt problems persist. In fulfilling this role, the Fund must remain faithful to its mandate as a monetary institution providing sound policy advice and temporary balance of payments financing. To do this, the Fund will need to adapt its policies to the changing circumstances and needs of its members.

In particular, the Fund must give greater attention in its programs to measures needed to promote long-run growth, as well as to correct short-run imbalances. And the Fund should work to see that comprehensive, growth-oriented programs are not blown off course by unforeseen developments beyond a country's control. Toward these ends, I propose the following package of changes in Fund facilities and policies.

First, I propose the creation of a new external contingency facility. It would help cushion the adverse effects on stand-by programs of external, unforeseen developments such as weaker commodity prices, lower export volumes, natural disasters, and sustained higher interest rates. Modification in economic policies will also often be required, but we hope this facility will catalyze

additional lending by other creditors as well. Since such a new facility would compensate, among other things, for shortfalls in export earnings, it would of course replace the existing compensatory financing facility (CFF). Like the CFF, it would be funded out of existing Fund resources.

This new facility should be complemented by other changes which reinforce the growth orientation in Fund programs. Therefore, to help give debtors both the scope and impetus to focus on measures to promote growth and to correct payments imbalances, I propose that programs of 18 months or longer should involve semiannual—rather than quarterly—performance criteria and disbursements. Quarterly monitoring would still be needed to detect problems at an early stage, but debtors could avoid excessive focus on the short run. This would be coupled with greater use of structural reforms as performance criteria in Fund programs, to complement the Fund's macroeconomic and exchange rate emphasis. Such areas as market-oriented pricing, privatization and reform of public enterprises, and trade and foreign investment liberalization would be covered, with careful coordination with the World Bank.

With the overall strengthening of performance that should result from these changes, the commercial banks should be able to rely more on overall program quality than on rigid linkages to Fund disbursements. In place of a preoccupation with mechanical formulas, the banks should focus on the appropriate policies to restore growth and creditworthiness and to maintain flexibility with regard to financing flows. . . .

Low-Income Countries

Let me turn now to low-income countries. Many of these countries are now pursuing difficult economic reforms whose success requires persistent efforts at home and strong support abroad. A number of recent initiatives are designed to provide this support.

The first evolved from a U.S. initiative at Seoul two years ago. It resulted in the establishment of the Fund's structural adjustment facility (SAF), and supplied a basis for enhanced cooperation between the World Bank and the Fund through the development of policy framework papers.

Managing Director Camdessus has proposed expanding the SAF to provide additional funds for low-income countries with protracted payments problems. We welcome this proposal and believe that the best source of new funding under the current circumstances would be the surplus countries.

To support these efforts, more must also be done to strengthen the effectiveness of program design and the policy coordination process. I therefore call on the Bank and the Fund to undertake joint missions, and to form a joint committee of the two Executive Boards, to review policy framework papers. IDA loans should also be integrated into policy frameworks as closely as loans from the SAF. . . .

Finally, as agreed at Venice, we continue to support on a case-by-case basis the provision of longer grace periods and maturities in official Paris Club reschedulings for the most needy low-income debtor nations.

Conclusion

We stand today at a particularly important juncture in international economic relations. We have accomplished much in recent years, but major tasks are still before us. The policy agenda remains a challenging one and more than ever demands a unity of purpose among a diversity of interests.

The framers of the U.S. Constitution recognized 200 years ago that each state would benefit if the United States were strong and prosperous. Like them, we must put aside narrow parochial interests for the general good of the international commonwealth of nations. In so doing, we can forge a growing global economy and stable monetary system that enhances the well-being of each of us.

We have made a beginning, a good beginning. Now, we must continue our patient efforts to promote economic liberty, improve the global economy, and strengthen the framework for international cooperation. With your support, I am confident that we will be successful in this important endeavor.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR SRI LANKA

Ronnie de Mel

This is the eleventh year in succession in which I have had the privilege of addressing this assembly as Minister of Finance and Planning of Sri Lanka. Last year, I recalled the hopes and aspirations that countries like mine had when I assumed office in 1977, and how they remain largely unfulfilled. It is true that the past ten years have undoubtedly been the most difficult for the world economy in the postwar period. Unfortunately, these difficulties have been compounded by the problems faced by industrial countries in rectifying their structural imbalances and in stimulating economic growth. As a result, developing countries have had to bear the brunt of international adjustment, at great cost to themselves. Countries like mine, which adjusted strongly and most courageously, seem to be shooting at a moving target, with ever-receding prospects for sustainable economic growth and development. This is an untenable and unacceptable situation.

World Economic Situation

I must concede that, in recent years, there have been some positive features in the world's economy. These include the better control achieved over inflation in the industrial countries and the slow but positive progress made in

the evolution of mechanisms of multilateral cooperation, such as the Plaza and Louvre accords on exchange rates, the Baker plan on debt, the securing of an expanded IDA replenishment, the structural adjustment facility, the adoption of the Special Action Program for African economic recovery, the launching of the Uruguay Round of Multilateral Trade Negotiations, and a greater commitment to a general capital increase of the World Bank.

It is of great concern to us, however, that there has been a pronounced slowing of economic growth in industrial countries. Furthermore, serious macroeconomic imbalances in major industrial countries continue to be a source of great instability in the system. The tensions that prevail have intensified protectionism, complicated exchange rate management, and, in consequence, dampened the prospects of international adjustment.

The growth performance of many developing countries that embarked on comprehensive adjustment programs in the face of severe political risk and significant social deterioration has been constrained by a serious decline in net external financial flows, depressed commodity prices, reduced market access for exports, and heavy debt service burdens. In many of our countries, there has been a depletion of the stock of social capital and a decline in the quality of life.

We have thus reached the point where we can no longer postpone urgent action to strengthen growth in the world economy. Priority must be given to: tackling the macroeconomic imbalances in the industrial countries in a creative way, reversing the present trend of dwindling net financial flows to developing countries, relieving low-income country debt, improving and stabilizing export earnings from commodities, and reversing protectionism and achieving early progress in removing artificial barriers to trade in the Uruguay Round.

Rectifying Imbalances in Industrial Countries

We subscribe to the emerging consensus that it is inadequate adjustment in major industrial countries that has been the overwhelming causal factor for weak growth in the world economy. Little headway has been made to address the structural problems in the large industrial countries, be they in trade policies or in factor markets. There has undoubtedly been intensified coordination among policymakers in the major industrial countries as reflected in the Plaza and Louvre agreements, the policy declaration of the Tokyo and Venice summits, and the increasing involvement of the Fund in multilateral surveillance. But this coordination so far has not amounted to anything more than a limited exercise in exchange rate management, whereas the underlying structural problems remain as they were. This cosmetic approach to international imbalances has failed to foster a sustainable economic recovery.

It is also disappointing that efforts at multilateral coordination have so far ignored the role of developing countries. The increase in the U.S. deficit has

been accompanied by not only a rise in the combined surplus of Japan and the Federal Republic of Germany, but also a decline in capital flows and a compression of imports in developing countries, which reflects continued but negative and painful adjustment in these countries. As the poor developing countries have now reached the limits of their adjustment, there are compelling reasons for allowing them some room for adjustment in a more orderly and humane way. The surpluses of industrial countries, particularly of Japan, should be redirected into capital flows to developing countries. This not only will help developing countries to achieve reasonable levels of growth, but it will also facilitate a reduction of the external deficit of the United States and enable the strong economies of Japan and the Federal Republic of Germany to assume their rightful role in international cooperation and thereby prevent a worldwide recession.

Three fourths of developing countries depend on commodities for more than half of their export earnings. Today, the real prices of non-oil commodities are at their lowest level since the Great Depression of the 1930s, and the prospects for the future continue to be bleak. The industrial countries, which consume the bulk of these exports, have turned a blind eye to this problem, in the mistaken belief that it reflects the necessity for structural changes in the world economy. I must caution that this is a dangerous attitude to adopt. They may be under the impression that continuous depreciation of exchange rates and containment of wage incomes would help the producers to remain competitive in a world of structural change. They forget, however, that these adjustments have to be guided by many other factors as well and that the continuing uncertainty of commodity prices is driving millions of producers out of production in developing countries, so that the day may dawn when the world community will have to manage without many commodities that they have gotten so used to having around.

The high degree of commodity specialization of developing countries is largely attributable to the unequal economic relationships of a colonial past. Owing to the relative poverty of these countries, they are unable to mobilize the financial savings needed to restructure their economies out of excessive dependence on commodities. Attempts at commodity price stabilization through international agreements have not been successful, although recent developments at UNCTAD have rekindled hopes of some financial support for the Common Fund. Meanwhile, current compensatory financing facilities have compensated developing countries for only one eighth of their export earnings shortfall from non-oil commodities since 1980. Early remedial action is therefore imperative.

Protectionism and Trade Negotiations

It is indeed disconcerting that new and widespread protectionist measures are being reported, even after the commencement of the Uruguay Round. We will all do well to fully recognize that a debtor country can service its debt only

if it can achieve a growth of export earnings that is higher than its debt repayments. With interest rates currently around 7 percent and already moving upward, few developing countries can achieve this required export growth, unless there is increased market access. This requires a speedy dismantling of trade barriers and a revival of commodity export prices.

There are indications from the GATT negotiations that there may be room for a fast-track approach to implementing some key measures to promote trade. These areas include agriculture, tropical products, and preferential treatment of developing countries. Early action in these areas will certainly help, but will be inadequate unless there is a greater commitment by industrial countries to open their markets and facilitate structural adjustment of their economies to the realities of world trade and specialization. Even though in matters of trade the GATT and UNCTAD have been entrusted with more direct responsibilities, the Fund should use its leverage, through multilateral surveillance, Article IV consultations, and the World Economic Outlook exercise, to improve access to industrial country markets.

Debt

Despite the extensive rescheduling of principal and easing of nominal interest rates, indebtedness continues to constrain growth and development prospects in many countries. The debtor nations have been forced to switch resources from domestic investment and consumption to generation of trade surpluses. This is not sustainable in the long run. Rescheduling has only led to a pileup of debt on top of debt. The postponement of debt is no lasting solution to the debt problem of Third World countries.

We must therefore welcome the Lawson initiative related to the indebtedness of low-income countries. Action must continue to be taken within the Paris Club to extend grace and repayment periods. Steps should also be taken to reduce interest rates on official rescheduled debt. More donors should favorably consider the proposed conversion of past ODA debt into grants. It is crucial that relief granted in this manner represents additional net resources to debtors and that it is extended to all IDA countries in a nondiscriminatory manner. In other words, those low-income countries that have been prudent in incurring debt should not be penalized in our preoccupation with the problems of the high-debt countries.

There are some recent indications, however, of a more flexible and innovative approach to the debt of middle-income countries. But, leaving the vast international debt problem with the financial markets—with some prodding by the Bank and the Fund—does not appear to be adequate. Whereas the markets tend to react to major problem countries, owing to their high individual exposure, the growing but less conspicuous problems of debt and slowdown of capital flows to other countries tend to get swept under the carpet. Hence, the Bank and the Fund should lead an internationally coordinated effort to resolve the debt problem of the entire developing world.

Decline in Net Financial Flows

With or without debt relief, growth prospects in developing countries are being seriously eroded by the lack of new external financial flows. Private capital markets have continued to be overcautious. The growth-oriented adjustment called for under the Baker plan has not brought about the additional private flows needed to support it. Official development assistance has been sluggish. There has also been a decline in net multilateral assistance, because of a slowdown in disbursements and rising amortization. Thus, it appears that a process of "adjustment by attrition" has been imposed on the poorer nations. The international community cannot continue to be insensitive to the serious disruption of the growth process and the fall in living standards that have occurred in many developing countries. Therefore, our deliberations this week must be geared to creating conditions conducive to growth-oriented adjustment in the developing world.

Fund Issues

You would agree that a transfer of real resources to developing countries necessarily implies that these countries must have current account deficits in their balance of payments in order to absorb the transferred resources. Such transfers would not merely support growth-oriented adjustment in these countries, but would also facilitate reducing macroeconomic imbalances in industrial countries. Instead, we have witnessed a reduction of the combined developing country deficit. This reduced deficit reflects adjustment through import compression, with all the now familiar consequences. The reduced deficit also mirrors a steady decline in medium- and long-term financial flows, as well as a negative contribution from Fund resources. In this situation, the question is the capacity of the Fund to discharge its obligations under its charter to meet the needs of its members.

It is agreed that macroeconomic adjustment and structural policies should aim to increase savings and investment in developing countries from their current low levels. However, for the success of this adjustment effort, adequate financing is necessary until adjustment and structural policies take hold. Strong adjustment without adequate finance not only slows down implementation of growth-oriented structural policies, but could also result in intensified trade and payments restrictions. Hence, the Fund should commit sufficient resources when the occasion demands. Not being able to do so will seriously impair the catalytic role that we expect the Fund to play.

Access Limits

In this respect, we urge that the access limits to Fund resources be restored to the levels prevailing when we took the decision on enlarged access, so as to restore necessary and sufficient maneuverability to the Fund management. Annual average access, which was 60 percent of quota in 1984, has steadily declined to 43 percent in 1986. In 1987, at best, it could still be only

43 percent. Along with the restoration of the annual access limit, the cumulative limit should also be restored to its original limit. If we agree that sustained adjustment can occur only with sustained growth and if sustained growth cannot be brought about in a hurry, the adjustment period should be spread over a number of years. It would be contradictory for the Fund to enter into growth-oriented adjustment programs and, at the same time, to reduce or avoid increasing access limits. Furthermore, at a time when we have emphasized the responsibility of the Fund to assist in better policy coordination, to promote structural adjustment, and to act as a catalyzing agent for financing adjustment, it would indeed be a wrong signal if parallel action were not taken with respect to policies governing the use of Fund credit.

Structural Adjustment Facility

We recognize the potential of the structural adjustment facility (SAF) to contribute to adjustment and growth of the low-income member economies with protracted balance of payments problems. We welcome the recent decision to increase the access limits to 63½ percent of quota over a three-year period. The Managing Director's proposal to triple resources of the SAF to SDR 9 billion must also be strongly supported. We urge that the enhanced facility be made operational by January 1988. The needs of low-income developing countries, which have limited access to commercial credit, are too well known. Addressing this issue is urgent, and the implications of delay are many. To enable the contributors to conclude action to commit the required resources, a mechanism that seeks to satisfy their concerns as well as one that is thought to be fair by SAF-eligible members should be put in place immediately.

However, we are concerned that a part of this increase was made possible on account of the slower-than-expected disbursements. We are also concerned that benchmarks in SAF programs should not assume the form and character of performance criteria associated with short-term stand-by arrangements. The concessional element in SAF resources is an important consideration in entering into an arrangement. Moreover, the monitoring of benchmarks and the application of conditionality have often resulted in "stop-and-go" policies within a generally deflationary context. Hence, program design relative to policy reforms should be appropriate to the circumstances of low-income countries. Furthermore, Bank-Fund collaboration should not result in prolonged negotiations or in frustrating cross-conditionality.

Ninth General Review of Quotas

We believe that a substantial increase in quotas is necessary to bring the resources of the Fund back into more appropriate balance with the world economy. The current situation of external imbalances among industrial countries, the uncertainty in the global economic environment, and the complexity of the debt issue are interrelated. Resolving them requires the political will to increase policy coordination, as well as the willingness to allow the

Fund to play its rightful role in promoting structural adjustment. A strong Fund is required to address these matters and to stand ready to react appropriately if the uncertainties develop into serious risks.

A substantial increase in quotas would also facilitate a reduction of reliance on borrowed resources. This is desirable for reasons of financial simplicity and also for reducing the cost of funds. Governors will recall that at the Eighth General Review, there was only a 47.5 percent increase in quotas, despite an overwhelming majority of members favoring a doubling of quotas. In this context, we support an acceleration of the Ninth General Review and at least a doubling of Fund quotas now.

Consideration should also be given to the inclusion of a poverty index in the quota formulas. This would allow the developing countries a level of quotas corresponding more closely to their financing needs. It is important that the revised quotas do not reduce the combined voting share of developing countries or significantly alter the voting strength of the individual members within this group.

We wish to emphasize that a strong Fund is required to safeguard the monetary nature of this organization, arising from the revolving character of Fund credit. If comprehensive programs of structural adjustment cannot be adequately supported by the Fund, there is a high risk that the anticipated growth necessary to sustain the adjustment effort would not materialize. Countries facing such situations would indeed be hard pressed to maintain liberal payments arrangements. This should not be allowed to happen.

Compensatory Financing Facility

The compensatory financing facility (CFF) was designed to assist members experiencing short-term reversible export shortfalls attributable to circumstances largely beyond their control, by providing unconditional finance in the quickest possible time. It is, however, extremely disconcerting that despite sharp deterioration in commodity prices worldwide, drawings under the CFF have declined substantially from SDR 2.8 billion in 1983 to SDR 0.6 billion in 1986, largely owing to highly restrictive interpretations of criteria relating to cooperation with the Fund and the temporariness of shortfalls. Failure to provide adequate and timely compensation has forced countries to adopt restrictive trade practices and has also increased their indebtedness. For the CFF to be effective, access must be increased and liberalized. Access should be determined on the size of the shortfall rather than on quotas. Furthermore, low-income countries, which are particularly vulnerable, should be provided timely low-conditionality assistance on concessional terms.

SDRs

An SDR allocation is long overdue. The arguments for an SDR allocation are strong both in terms of its systemic role—that is, in supplementing existing

reserve assets—and in terms of its distributional role—that is, in compensating for asymmetries associated with the process of liquidity creation. An allocation would serve to mitigate the global deflationary impact of the reserve building that many developing countries have been forced to undertake through import compression. I hold the view that an SDR allocation at this time will benefit everybody. It would help developing countries to build up reserves and reduce the need for import compression that disrupts their growth and development. For the United States, an SDR allocation would not only strengthen its weak reserve position, thereby helping to defend the dollar if the need arises, but it could also alleviate the strain associated with reducing its large external deficit. Finally, surplus countries would benefit both by the low risk associated with holding SDRs and by the increase in export demand from developing countries. . . .

Concluding Remarks

Before I finish, I am very pleased to inform this assembly that a historic peace agreement has been signed to end the ethnic strife that has plagued Sri Lanka since 1983. There has been a cessation of hostilities and a surrender of arms. There are, no doubt, difficulties in the implementation of any peace agreement. My Government is moving ahead vigorously to restore normalcy in all parts of the country. The damage to our economy has been extensive, nearly $2 billion, and the World Bank has agreed to reorganize a Special Aid Consortium meeting in early December to mobilize international support for our program of rehabilitation and reconstruction. Many friendly countries have already indicated their support. I am confident that we will achieve lasting peace and a favorable economic and financial climate, which will enable Sri Lanka to regain the very high rates of growth and impressive development that took place before the outbreak of the disturbances in 1983. We seek the support of the international community in this great endeavor of reconstructing the strife-torn areas of our land.

On behalf of the Government and the people of Sri Lanka, I wish to express my deep gratitude to Mr. Conable, Mr. Camdessus, and the staffs of the Bank and the Fund for so expeditiously helping us in this great endeavor.

Statement by the Governor of the Fund and the Bank for India

Narayan Datt Tiwari

I join my fellow Governors in congratulating Mr. Abdul Karim on his election as Chairman of the Annual Meetings. I would also like to convey our best wishes to Mr. Michel Camdessus who is with us for the first time as the Managing Director of the International Monetary Fund.

These meetings are being held at a time when the world economy is passing through a very difficult phase. Output growth is expected to decline for the third successive year and the medium-term prospects are far from bright even though inflation has remained subdued, misalignment of major currencies has been substantially reduced, and, until recently, nominal interest rates had been declining.

As usual, the poor performance of the global economy has had particularly unfortunate consequences for developing countries. The impact of an unfavorable international economic environment has been aggravated in some developing countries, including my own, by severe natural calamities. However, in this year of unprecedented drought in India, we are finding that our policies of self-reliance and planned economic development have contributed immeasurably to our economic resilience.

The low growth in world output and intensifying protectionism have depressed world trade; its growth rate during the present decade, averaging only 2½ percent, is one half of that achieved in the 1970s. It is unfortunate that even after the launching of the Uruguay Round last year, we have seen an increase in the number of nontariff barriers that have damaged the world trading environment, with especially negative consequences for the access of developing countries to the markets of industrial countries. The situation has been especially difficult for poorer countries struggling to increase exports to meet the debt service on obligations, which were incurred at a time when the global economic environment was more supportive.

The large and persistent decline in commodity prices during the present decade has been a matter of deep concern to developing countries. The sharp reduction in their import capacity has slowed down their rates of growth and trapped many of them in chronic external payments difficulties. While there has been a recovery in commodity prices in the first half of the current year, in relation to export prices of manufactures they are expected to suffer a decline of 13 percent on top of a 16 percent fall in 1986.

The world economy in the 1980s has settled down at a suboptimal level of economic activity, giving rise to high rates of unemployment and worsening of poverty in several regions. The debt problems of middle-income and many low-income countries, particularly those in sub-Saharan Africa, have intensified the need for additional measures to help resolve their difficulties.

The paramount need of the hour is to restore the growth momentum in both industrial and developing countries. In this context, the recent attempts to coordinate policies of larger industrial countries are to be welcomed. These have already led to better alignment among key exchange rates and greater realization of the need to correct serious imbalances in the fiscal and trade areas. However, much more remains to be done. In particular, surplus industrial countries which have successfully contained inflation need to strongly expand domestic demand. We are happy that some useful work has

been done in the Fund to develop indicators as aids to economic policy coordination. This should, hopefully, help make Fund surveillance more effective and symmetrical. Policy coordination among industrial countries must safeguard the vital interests of developing countries, which should also be made effective participants in the consultative process.

One key constraint on world economic growth has been an insufficient flow of capital on appropriate terms to developing countries. Commercial banks have been increasingly reluctant since 1982 to provide new financing to highly indebted countries. Although gross disbursements by the World Bank have continued to increase, it is unfortunate that net transfers have been going down. Net disbursements from the Fund have also been declining since 1984, leading to a reverse flow from borrowing countries to the Fund in 1986. Of particular concern to low-income countries has been the sharp deceleration in the growth of official development assistance since the mid-1970s. Net flows of concessional assistance to developing countries from all sources have remained stagnant in real terms throughout the present decade.

It is our considered view that the slackening of efforts in regard to ODA has been a significant factor contributing to the debt problems of low-income countries. It is important that we learn this lesson for the future so as to avoid emergence of similar problems in other countries.

Development is a complex and difficult process which calls for large long-term resources, building of economic and social infrastructures, breaking of age-old barriers to change, and gradual diversification of economies. In particular, eradication of poverty in low-income countries is a long, drawn-out task. Premature substitution of private commercial flows for official development finance in these countries is not desirable. . . .

We welcome the initiative of Mr. Camdessus to enhance the resources of the Fund's structural adjustment facility (SAF). The enhanced SAF should have the same terms and eligibility and access criteria as in the present SAF. The SAF conditionality should, however, be made more realistic and flexible. Furthermore, the enhancement of the SAF resources should be effected in a manner that ensures genuine additionality in concessional flows.

We are glad that the Executive Board of the Fund has begun discussions on the Ninth General Review of Quotas. There is an urgent need at least to double the total quotas if the Fund is to play its rightful role in helping countries to undertake economic adjustment with growth. Meanwhile, it is crucial that the level of financing of members requiring Fund assistance be substantially stepped up.

In our view, future quota allocations should improve the share of developing countries. The present criteria for quota calculations are based predominantly on the economic strength of members but do not adequately take into account the current and potential needs of members which have to have recourse to Fund resources. This deficiency needs to be rectified.

We have been discussing the question of a fresh allocation of SDRs since 1982. It is a matter of great concern that though the need for a substantial allocation of SDRs is widely recognized, the requisite consensus for an allocation has not yet materialized. The emergence of a multicurrency reserve system and large international capital markets has in no way reduced the need for a fresh allocation of unconditional liquidity in the form of SDRs. We trust that members that still have reservations on the subject will agree to an allocation in a spirit of understanding and international cooperation.

We are happy that the objective of adjustment with growth has been universally recognized. This has an important bearing on the role of the Fund. Adjustment with growth would require a new approach to Fund conditionality as well as to the financing of Fund programs. In that context, we would urge that the Reports of the Group of Ten and Group of Twenty-Four, which contain many useful ideas on that subject, should be expeditiously examined so that these can be discussed at the next spring meeting of the Interim Committee. Secretary Baker's proposals, outlined in his statement a short while ago, are a substantive contribution to this debate, which would merit serious consideration.

We live in an increasingly interdependent world. The multilateral institutions, particularly the World Bank and the International Monetary Fund, both symbolize and advance international cooperation. The problems which we confront are indeed complex and difficult. However, there is no question that given goodwill and determination, we can together begin to resolve them for the good of one and all.

Statement by the Governor of the Fund and the Bank for Ireland

Ray MacSharry

I, too, welcome Mr. Camdessus here in his capacity as the Managing Director of the Fund. He is no stranger to Annual Meetings but he has now assumed a new and very important role. I wish him well in this role and can assure him of every support.

The key task at these Annual Meetings is to consider how best to achieve higher growth in the world economy. It is only through higher growth that we can overcome the difficulties which face us.

In the pursuit of this task, the use of indicators and the setting out of a number of different scenarios, as is done in the Fund's *World Economic Outlook (WEO)*, can provide valuable insights. It can show the broad impact of a range of policy changes and the dangers involved with particular courses of action, or inaction. Of course, these exercises are at an early experimental

stage and need to be extended and refined. However, it is already apparent that they will make a very useful contribution to international policy coordination.

Efforts to coordinate economic policies internationally have already had a measure of success. The Louvre agreement was a very encouraging development in this regard. It showed the willingness and ability of the major countries to agree on cooperative action. It has been successful so far in bringing greater stability to the foreign exchange markets. However, I wonder whether the commitments made at that meeting, which have since been reaffirmed, will be adequate when assessed against the major problems confronting us.

The short-term economic situation certainly shows some signs of improvement. Yet, the *World Economic Outlook* points out that, in the medium term, we are likely to see only slow improvement in the major problem areas. Even the most favorable scenario included in the *WEO* can point only to a modest growth in output. This pace of growth will be insufficient to make satisfactory inroads into the fundamental problem of unemployment. Greater progress must be sought through intensifying and extending international coordination. Additional measures must be implemented with a greater sense of urgency.

There seems to be consensus that a keystone of the policy mix we need must be credible action to reduce the U.S. fiscal deficit in 1988 and beyond. The other major essential envisaged is for domestic demand to outstrip output growth in many of the industrial countries outside the United States. This should help reduce external imbalances and at the same time give support to the growth efforts of developing countries. I have no quarrel with the main thrust of this argument, but I wonder, is too much reliance being placed upon it in the overall strategy? Will it be pursued vigorously enough to adjust the existing imbalances at existing exchange rates and to provide sufficient growth to make inroads into the unemployment problem?

Structural adjustment has an important role to play in backing up demand measures and providing a durable basis for growth. But structural adjustment takes time. I fear that the benefits of structural adjustment may take too long to feed through. Meanwhile, the continuing imbalances could lead to further exchange rate changes. If this were to happen, it could aggravate unemployment, particularly in Europe. It could also add to the pressure in some countries for protectionist measures.

My own country, Ireland, is a small open economy, having close economic ties with the large industrial countries of Western Europe. We depend very much on a stable and growing external environment to facilitate our goal of greater output and competitiveness and to encourage capital flows for investment. We have unemployment at 19 percent of the labor force. We have a large fiscal imbalance, which is being reduced by painful adjustment measures. Our economic situation precludes reliance solely on domestic demand for growth. It is imperative that we have growth in external markets. Other-

wise, the necessary domestic adjustment will be put in jeopardy. We must strive to ensure that our adjustment efforts are not frustrated by inadequate responses by the major industrial countries.

Further work needs to be done at the international level to probe the question of international consistency of the policies being pursued, especially for the industrial countries and the stronger developing countries. We must aim for a global strategy that will optimize growth for all in the face of formidable constraints. In this way we can all make real and substantial progress.

The debt situation is a central element of all aspects of World Bank and Fund policy discussions at this stage. It is at the forefront not only of such issues as the enhancement of the structural adjustment facility, but also of issues such as the Ninth General Review of Quotas and the World Bank general capital increase. It is right that this should be so, given the severity of the problem.

It is now clear that the debt problem is going to remain with us for a considerably longer time than many of us might have thought when the crisis first developed. Progress has been made in certain areas. Nevertheless, there are signs of tension emerging.

We are all agreed that the growth-oriented adjustment strategy is the path that must be followed. It cannot be allowed to fail just because difficulties are encountered or because the commitment of any of the major participants is less than it should be. Without adequate support from multilateral and private financial institutions and a much higher level of private direct investment, the adjustment efforts of the developing countries cannot hope to succeed.

In this context, I welcome Mr. Camdessus' proposals for a substantial increase in the resources available to the structural adjustment facility. I would hope that current difficulties can be resolved and that operations under the enhanced facility can indeed commence by the beginning of next year.

My country has always been particularly supportive of aid efforts aimed at the most distressed low-income countries. Therefore, we welcome the emphasis at these Annual Meetings on providing assistance for these countries, especially those in sub-Saharan Africa. This emphasis is the same as that of our own bilateral aid program. We have also shown our strong commitment to the activities of the International Development Association by agreeing to an increase, albeit modest, in our contribution to IDA-VIII, despite severe budgetary constraints at home.

I am pleased that the existing access limits to Fund resources are being maintained. By this decision, we are signaling the continued commitment of the Fund to support countries which are taking adequate adjustment measures. The Ninth General Review of Quotas, which has now started, gives an opportunity for member countries to ensure that the Fund will have sufficient resources available in coming years to play its central role. I would hope that

the review will be conducted in a constructive way and be completed without delay. . . .

In the two organizations with which we are concerned at these Annual Meetings, the World Bank and the International Monetary Fund, we have two of the key institutions on which the prosperity of the world depends. I am sure that they will continue to respond effectively to the challenges of an ever-changing world economy. I hope that the coming year will see even greater progress in their very valuable contribution to the global development effort.

STATEMENT BY THE GOVERNOR OF THE FUND FOR SPAIN

Carlos Solchaga

Surely it cannot be said that there has been any distinct easing in the problems of the world economy since our last Annual Meetings. The report on these problems prepared by the Fund can only reflect the disappointing developments of the recent past, offer a few projections of modest and uncertain improvement—this at a time when protectionism is on the rise—and acknowledge that we are as far as ever from resolving the debt crisis.

It is readily acknowledged that the external imbalances of the present day are unsustainable and that excessive contraction in the course of correcting them could induce a serious worldwide recession. It has also been noted, however, that serious risks of recession would be entailed in an effort to speed up efforts to eliminate the U.S. deficit should the economic policy of the United States appear not to be properly coordinated with those of the major surplus countries.

There has clearly been improvement of late in the degree to which the policies of the major industrial economies are coordinated. It would appear, however, that there is room for more decisive action along these lines. In the past, and with singularly poor results, excessive use has been made of short-term demand-management policies; there is now the opposite risk of failing to recognize the amount of latitude there is for taking action, and the danger that this will prevent achievement of medium-term objectives. We, therefore, support the Fund's recommendation that the surplus countries use their latitude for action to stimulate demand by means of fiscal policies in tandem with structural policies, while the United States brings about a significant reduction in its federal deficit, and monetary policies maintain their medium-term stability targets.

In the absence of coordinated and decisive policies, the industrial countries will be unable to improve upon their modest rates of growth or to reduce the high unemployment rates many of them share; without such policies, it will

also be impossible for them to make an adequate contribution to overcoming the distressing problems faced by a great many developing countries. This consideration is of the utmost importance because, while the root cause and the eventual solution to the current problems of the world economy are to be found in the industrial countries, their most serious social and political consequences are felt in the developing countries.

The hopes raised by the Baker initiative have not been fulfilled. The ratio of gross external debt to exports has continued to increase even as the ratio of interest payments to exports has failed to decline; restructuring and debt renegotiation processes have become more and more time-consuming and complicated; the banks have continued to show great reluctance to further increase their exposure in these countries, as a consequence of which, net bank financing received by the countries concerned last year was scant or negative, and a secondary market has grown up in which many banks have endeavored to shift a portion of their loans to the indebted countries to third parties at steep discounts. In the final analysis, the indebted countries have been unable to improve their standing as borrowers in international markets and have failed to establish a firm basis for their future growth. If we turn to the case of the low-income indebted countries, we find an even more overwhelming situation, with growth rates that are surely too low to improve the very low standards of living of their people.

Overcoming these difficulties must be the principal focus of the structural reform and rehabilitation policies of the countries concerned. It is also clear that much remains to be done in this area: such policies have not been adopted on a widespread basis, not all countries have applied the same degree of rigor, nor have all the sectors been covered that should have been. It must be acknowledged, however, that the implementation of such policies, which is always difficult both politically and socially, depends in large measure on the existence of a favorable economic climate, which obviously has not existed in recent years. Many of the countries concerned have considerably increased export volumes in real terms, but the sharp and widespread deterioration in their real terms of trade has prevented the anticipated improvement in their export revenues. At the same time, these countries have had to continue contending with protectionism in the industrial countries—but not there alone—the persistence and spread of which are quite rightly denounced in the reports of both the Bank and the Fund. It is unreasonable to call upon indebted countries to adopt difficult policies aimed at increasing and diversifying their exports if, at the same time, insufficient growth and protectionism in the industrial countries deny them access to markets that are expanding sufficiently rapidly.

The countries experiencing difficulties will only be able to reduce their debt/export ratios if their exports increase at average rates that exceed the interest rates on their external debt. As long as this does not happen, their

rating as borrowers will not begin to improve and market pressures will continue fueling the banks' desire to reduce their risks in these countries.

The new formulas which might help make it more attractive to the banks to extend new financing are important steps, but we must not overlook the fact that new bank financing will be made available to the debtor countries only in small amounts until such time as these countries' prospects improve and their ranking as potential borrowers becomes higher. This requires efforts with regard to national rehabilitation and structural reform policies in the debtor countries, but also requires expanding markets, and these can result only from higher growth rates and reduced protectionism in the industrial countries.

In the meantime, financing from official sources and the multilateral institutions will necessarily play a crucial role in the next few years. Here again, however, recent experience provides no grounds for optimism. In the case of the International Monetary Fund, the net negative utilization of the Fund's resources recorded in 1986 and projected to recur in 1987 is inconsistent with the central role that our institution is called upon to play in the solution to the debt problem.

Spain has supported the Managing Director's proposal with regard to maintaining the same access limits in 1988, both for ordinary resources and for the special facilities. We have never advocated any weakening of the Fund's conditionality and do not look upon the problems of countries experiencing difficulties as simple liquidity crises. Be that as it may, to the extent that these countries have properly oriented economic policy programs, our institutions must manage to assist them in a more flexible manner. The Fund's liquidity situation is comfortable at present, but in order for the institution to have sufficient resources to meet its responsibilities in the next few years, Spain is prepared to support a new quota increase.

Furthermore, we share the Managing Director's conviction that the low-income countries need more concessional financing. We believe that both his proposal to increase the resources of the structural adjustment facility by SDR 6 billion and the quite simple proposal of the United Kingdom to write off the debt of the poorest countries have a number of positive aspects and are worthy of the closest examination. . . .

Under the prevailing circumstances, it appears necessary to intensify the cooperation between the Bank and the Fund. . . .

In conclusion, I would like to stress the need for strengthening our institutions and encouraging the major countries both to promote negotiations aimed at the reduction of protectionism and to increase their cooperative efforts aimed at identifying specific ways of achieving greater growth without abandoning the objectives of stability.

For a country like Spain, which after many years of harsh adjustment policies is now in a phase of significant expansion even as it continues to

reduce its rate of inflation, the slackness in the economies of the industrial countries as a whole constitutes a serious restriction. For the developing countries that are experiencing economic problems entailing serious social and political difficulties and are prepared to adopt and carry out rehabilitation and reform programs, the lack of dynamism of the international economy is a source of profound frustration. Faced with problems of such magnitude we should not confuse prudence with fear when we take our collective decisions.

STATEMENT BY THE GOVERNOR OF THE BANK FOR BANGLADESH

M. Syeduzzaman

It is indeed a great pleasure and privilege for me to be able to address the Annual Meetings for the fourth consecutive year. Before I start, I would like to join other Governors in welcoming Mr. Michel Camdessus, the new Managing Director of the International Monetary Fund. He has taken charge of the affairs of the Fund at a critical time, and we wish him every success in discharging his onerous responsibilities. I would also like to congratulate Mr. Conable on his successful leadership in reorganizing the Bank to meet the new challenges to development, an effort which has not been easy and free from controversy. The new Bank, we hope, will play its leadership role in the comprehensive development process more effectively and efficiently and meet the needs of the borrowers, as reaffirmed by him at the inaugural session.

The Forty-Second Annual Meetings of our two institutions come at a time when all relevant indicators show a declining trend in the world economy. Growth rates of developed and developing countries are declining, largely because of slow and depressed growth rates in developed countries; trade is stagnating as protectionism grows stronger; low commodity prices imposing deteriorating terms of trade for developing countries are accentuating the reverse transfer of resources from the developing countries; debt problems are getting worse; and with fiscal and trade imbalances of developed countries persisting, we apprehend that the world is moving toward the "low-case" scenario indicated in the 1987 *World Development Report*. Resistance to further adjustments and reforms is naturally hardening in many developing countries in the absence of adequate resource support and trading opportunities. That growth will inevitably decline further in 1987 and 1988 unless significant action is taken by the international community is apparent from the documentation prepared for our meetings this week.

Inability of the industrial countries to reduce their fiscal deficits and payments disequilibria and fear of generating inflationary pressure are inhibiting them from moving to higher growth. The organic link between this and the slowdown in the export growth of industrial countries and the dramatic

reduction in the effective import demand of developing countries needs to be seriously recognized. The evidence is also quite clear that the inability of the developing countries to sustain required imports because of unprecedented terms of trade losses and lack of adequate resource inflows is a major factor affecting faster growth in the industrial countries, thereby slowing down the growth of the global economy.

Structural adjustments were prescribed as conditions necessary for attaining a sustainable level of growth for the developing countries. The developing countries have already demonstrated their determination and political will in implementing structural adjustments. The President of the Bank in his report to the Development Committee has underlined the bold efforts made in this direction by many developing countries. They are continuing with their efforts in the face of severe unfavorable social consequences and political constraints. These efforts have helped improve the macroeconomic environment and policy environment in their economies without concurrently putting them onto a sustainable growth path. It is now being increasingly realized that their efforts cannot be sustained for long in the face of an inadequate net transfer of resources, the increasing trend of protectionism in the developed countries, and low commodity prices.

Adjustment programs have been mostly geared to market-oriented policies at a time when market-oriented opportunities are shrinking in exports, capital flows, and private investments. Adjustment is desirable and imperative, but it can only take place in an environment of growth and adequate financial support. The architects of the structural adjustment facility (SAF) visualized a parallel growth in official and private flows, which has not been forthcoming.

There has been no dearth of suggestions and initiatives for solving the current international economic problems—debt, trade, capital flows, concessional aid, and so on. New terms have been coined such as "menu of financial instruments," "financial engineering," and many more. I think it would be correct to say that in dealing with the current economic problems and issues, only the Bretton Woods institutions have retained an objective sense of balance. We need to strengthen these institutions by providing them with additional resources.

The hardening of protectionist tendencies, mainly through nontariff barriers in the developed countries, is a major contributor to the deteriorating external accounts of the developing countries, making their adjustment efforts more difficult. This is all the more frustrating as many developing countries are liberalizing their trade and industrial policies as part of their adjustment programs to reallocate resources to the external sector. In the case of my own country, when we were trying to diversify our exports, many industrial countries imposed quota restrictions on our products, though Bangladesh is a miniscule supplier of such products to these countries. Quota agreements are complex in nature and difficult to administer. All these have the effect of

discouraging investment in an area where Bangladesh clearly enjoys comparative advantage. This came at a time when our major commodity exports, including jute, jute goods, and tea, were facing declining prices like many other primary commodity exports of developing countries, thus aggravating the problem further. We look forward to the forthcoming multilateral trade negotiations under the GATT later this year for a new liberal trading environment, covering manufactured and agricultural products from developing countries. We have been greatly encouraged by the reassurances of the President of the United States of America yesterday to fight protectionism.

In spite of rescheduling a part of the debt of some middle-income countries and the commendable conversion into grants of a part of the ODA of low-income countries by some donors, there has been an overall deterioration of the debt problem. It is illusory to believe that the debt problem can be satisfactorily resolved without ensuring adequate resource flows and enhancing the ability of the debtor countries to service their debts through higher export earnings.

We welcome the initiative of the Bank and of the Fund for augmenting concessional resource flows to sub-Saharan African countries facing exceptional difficulties through a special program of assistance during 1988–90, following recognition by the Venice summit that their problems need special treatment. In this context we also welcome the initiative of the Chancellor of the Exchequer of the United Kingdom—which was widely endorsed in the recently concluded meeting of the Commonwealth Finance Ministers. But conditions for strong reforms up front will need to be flexibly handled in the light of social and economic realities. The President of the Bank in his statement has rightly pointed out that special attention needs to be given to the external resource requirements of low-income countries outside sub-Saharan Africa in similar difficult situations and facing problems of abject poverty.

We should not underestimate or lose sight of some positive developments in the past year, such as agreement on IDA-VIII; support for a general capital increase of the World Bank; reaffirmation of the World Bank's role in poverty alleviation; the Venice summit reference to 0.7 percent target for official development assistance by the developed countries; support for increasing the resources of the structural adjustment facility; positive sign of relaxation of tension, both East-West and North-South; progress at UNCTAD VII on debt rescheduling, on a review of SNPA in 1990, and on the Common Fund. There were definite indications of better international understanding and a greater sense of realism at the UNCTAD VII as well as positive signals given by some industrial countries in respect of debt problems of low-income countries. It is also encouraging and heartening to see that even in 1986 OPEC countries provided $4.5 billion in net disbursement of untied ODA to developing countries, despite the sharp fall in income from petroleum, a substantial share of their GNP. The Japanese decision to recycle $30 billion over the next three years is also an encouraging signal. In recognizing the positive elements, the

Ministers of the Group of Twenty-Four have rightly pointed out that any optimism regarding growth projections in the medium term can be justified only if all parties concerned assume their responsibilities for the attainment of adjustment with growth. . . .

The structural adjustment facility (SAF) of the Fund has been in position for more than a year, but only a small number of the eligible countries have access to this facility. This needs serious consideration, and in particular, the introduction of conditionalities like stand-by arrangements contrary to the basic objectives of the SAF needs urgent review. In designing programs under the SAF, greater consideration of the economic difficulties and sociopolitical realities of the eligible countries needs to be taken into account to provide the necessary incentives. A combination of increased resources for the SAF as proposed by the Managing Director of the Fund, the Special Action Program initiated by the Bank and the Fund, the Lawson initiative, and a fresh allocation of SDRs could certainly trigger a growth-oriented resource flow to the low-income and least developed countries facing exceptional difficulties.

The importance of growth orientation of structural adjustment programs can hardly be overemphasized and we thank the Managing Director of the Fund for recognizing this. Under the present design of such programs the burden of adjustment mostly falls on public investment when the need is for developing infrastructures and expanding social sector programs to protect the weaker groups in the society during adjustment.

We fully endorse the recommendation of the Ministers of the Group of Twenty-Four that an agreement on a tripling of the resources of the SAF be reached as soon as possible, to make the enhanced SAF operative on January 1, 1988. We have been encouraged by pledges made by several donors in the meetings of the Development and Interim Committees and hope that the process will not be stifled by rigid positions on burden sharing. In this context we also commend the Canadian proposal for increasing food aid to the low-income countries in exceptional difficulties as an important modality for channeling quick-disbursing assistance.

The Ministers of the Group of Twenty-Four have rightly emphasized that the Fund provide larger financial support by increasing access limits to its resources and that the work on the Ninth General Review of Quotas be concluded as soon as possible, keeping in view the need for increasing the share of developing countries in Fund quotas. The Ministers of the Group of Twenty-Four have also rightly deplored the absence of any action for new SDR allocations that hinders the Fund from playing its legitimate role, though there is overwhelming evidence that the conditions of the Articles of Agreement are fully satisfied. . . .

Bangladesh is the largest of the least-developed countries. It represents the most difficult collection of development problems. In the midst of difficult external and internal conditions, our economy during the past five years has shown its potential for growth. We have a strong adjustment program in place.

Unfortunately, this summer the economy was hit by one of the worst floods of this century, leading to a loss of property and assets equivalent to 7–8 percent of GDP. It is almost certain that there will be a decline in per capita income this year. It is under such circumstances that targets set for adjustments and reforms under programs supported by the SAF need to be flexibly treated. In this context the recommendation of the Group of Twenty-Four for a contingency mechanism for sudden and unexpected changes in economic conditions to be a part of the SAF is highly relevant. Secretary Baker also suggested a contingency mechanism within the Fund this morning. I am sure these suggestions will receive adequate consideration by the management of the Fund and its Executive Board in due course.

The development issues before us are many; they are complex too. We recognize that there are no easy solutions to them, but certainly these are not beyond the ingenuity of mankind. This will need increased policy coordination among the industrial countries in addition to cooperation between the developed and developing countries. In this context, we endorse the recommendation of the Group of Twenty-Four on the need for an expanded dialogue among industrial and developing countries and the suggestion for an exploration of the modalities for undertaking this dialogue. In the same context, we support the proposal for the creation of a representative committee of ministers to examine proposals for the reform and improvement of the international monetary system as reiterated by the Ministers of the Group of Twenty-Four.

Before concluding, I would like to touch on some issues that in our opinion can reactivate the process of growth in low-income countries if there is a collective goodwill and a sense of urgency among all member countries:

—renewed priority to aid targets and their fulfillment;

—follow-up of the recommendations of the Task Force on Concessional Assistance;

—enhancement of the SAF resources to SDR 9 billion as proposed by the Managing Director of the Fund, preferably by January 1988;

—early implementation of the joint Bank-Fund Program of Action for increasing concessional flows to low-income countries with exceptional difficulties;

—conversion of loans into grants for low-income countries that face exceptional difficulties;

—action on the report of the Task Force on Poverty;

—the need to ensure that Fund-supported programs incorporate specific growth objectives including investment levels and flexible targets; and

—consideration of ways in which Bank-Fund collaboration could be more helpful to SAF countries in stimulating investments while avoiding cross conditionality. . . .

DISCUSSION OF FUND POLICY AT FOURTH JOINT SESSION[1]

STATEMENT BY THE GOVERNOR OF THE FUND FOR SOUTH AFRICA

B.J. du Plessis

Mr. Camdessus has already made an important contribution toward the activities of the International Monetary Fund since he became Managing Director at the beginning of this year. We wish him well in his challenging task.

The past year witnessed certain developments in world economic conditions that contributed toward the frustration and the plight of developing countries. These developments can be summarized as follows: the growth in real gross national product of the industrial countries slowed from 3¼ percent in 1985 to 2¾ percent in 1986; real primary commodity prices declined, whereas prices of manufactured products continued to rise. The terms of trade therefore moved against most developing countries; there has been a further unfortunate extension of protectionist and restrictive trade practices in various forms; while beneficial in the long term, the recent realignment of exchange rates among the industrial countries made international trade and financial transactions more complex; and capital flows between the financial markets in the major industrial countries continued to expand, but at the same time the flow of "spontaneous" funds between industrial and developing countries stagnated.

Against this background, the position of developing countries, and especially those with external debt problems, weakened further, as borne out by the following figures: the combined deficit on the current account of the balance of payments of developing countries increased from $24 billion in 1985 to $46 billion in 1986; total private lending to developing countries declined from a peak of $87 billion in 1981 to $19 billion in 1985 and to only $10 billion in 1986; in the case of countries that recently experienced debt-servicing problems, there was a net repayment of $6 billion of private sector credits; and the total dollar value of developing countries' external debt rose by 9 percent in 1986 to reach $1,100 billion at the end of the year.

The problem of servicing the increasing debt of Third World countries has been a major item on the agenda of the Annual Meetings of the World Bank and the Fund since 1982, and only limited progress seems to have been made

[1]September 30, 1987.

in the many efforts to find a solution. It is now acknowledged that it will take longer to solve the problem than was hoped for originally, and one can only endorse the often repeated conclusion that there are no quick fixes. We therefore welcome the initiative of the Managing Director in seeking an enhancement of the Fund's structural adjustment facility.

In this regard, it is indeed disquieting to read in the *Annual Report* of the Fund that there have been "net repayments to the Fund of some $2 billion for the entire group of developing countries in 1986." This seems to indicate that the various existing facilities of the Fund in their present form do not appropriately address the prevailing exceptional problems and needs of developing countries. The structural adjustment facility would appear to provide a more appropriate approach if combined with a greater emphasis on medium-term macroeconomic and structural adjustment programs, more active participation in management, greater attention to growth-oriented policies, and project financing through the World Bank Group.

This approach will also be in line with a trend that should at this juncture be accepted as a reality, and that is the fact that the international banking system will remain reluctant to make any important voluntary contribution toward the financing of the development needs of Third World countries in the years ahead. The World Bank and the Fund therefore will have no alternative but to accept greater responsibilities in this regard.

Consequently, the extension of the structural adjustment facility is a move in the right direction but needs careful consideration in its implementation. It is imperative, for example, to provide for the need for management skills and finance in the execution of any restructuring program. It is also imperative that the World Bank and the Fund should, in accepting this greater responsibility, be allowed to remain completely objective in their assessment of needs and requirements and not be subject to purely political influences and considerations in the execution of their duties.

We also regard it as a constructive development, within the context of the "case-by-case approach" of the Fund, to draw a distinction between the "low-income debt-distressed" countries and others that, given the necessary time, have a potential to recover. The former group of countries, many situated in sub-Saharan Africa, have our understanding for the harsh climatic conditions, unfavorable world economic environment, and difficult international financial framework within which they have to seek a solution to an exceptionally daunting problem.

During the past few years South Africa also had to contend with many of these adverse influences and had to cope with its own international debt redemption problem, which arose from a temporary liquidity crunch and not from an overextended debt-servicing commitment.

In the special situation of South Africa in the world context, we had no alternative but to enforce a drastic adjustment upon the domestic economy. During the past two and a half years, we repaid almost $4.5 billion of foreign debt. This included repayments of almost $800 million on Fund facilities. By the end of this year, South Africa will have no outstanding commitment on any Fund facilities and will be in a better position to continue to consolidate its remaining commitments to its private sector creditors.

In this regard, South Africa recently successfully negotiated a multiyear repayment arrangement with its private sector creditors but was criticized for excluding repayments to the Fund and redemptions of certain foreign government guaranteed loans from this arrangement. The private bank creditors insisted on fair and equal treatment for all creditors, including the Fund. Our repayments to the Fund were, however, made despite this criticism.

It was, of course, also not without great economic sacrifice that South Africa could meet all these obligations, both to the Fund and other creditors. The required large surpluses on the current account of the balance of payments could only be generated by severely restricting the domestic absorption of goods and services. After three years of low economic growth, we have now consolidated a situation that at times was extremely challenging. At this stage, however, we are in a position to restimulate growth and to be less concerned about the balance of payments effects of the emerging recovery in domestic demand.

Returning to the economic problems of sub-Saharan Africa, numerous arguments are justifiably being raised at these meetings why this subcontinent needs special aid and assistance. It is ironic, however, that the only South African country that by way of technical and other abilities and resources is most favorably placed to contribute toward alleviating the dire needs of other countries in this region should at the same time be the target of a concerted international effort to depress its own development. As events of the past year have proved, these misguided attempts adversely affect the whole region. The tragic reality is that disinvestment from South Africa has proven also to be a disinvestment from sub-Saharan Africa.

The Lesotho Highland Water Project, which is now in progress, provides a good example of what can be achieved through economic cooperation in the Southern Africa region, to the advantage of different countries and of all the peoples of the region. It also serves to illustrate how the efforts of the World Bank and other international development institutions can be complemented by regionally based institutions, such as the Development Bank of Southern Africa. It is through the achievement of results such as these that my country is convinced that, despite provocative actions from the outside world, we must continue in our unremitting efforts to maintain normal economic relations with all other countries and, at the same time, protect and promote the many diverse and mutually reinforcing trade and developing ties with neighboring states.

Within this strategy, South Africa will continue to make its contribution toward the funds of the World Bank, and our commitment to the IDA-VIII Replenishment will be honored, despite the external financial pressures on our economy.

We are also prepared to lend our support to a significant increase in the quotas of the Fund. In the light of the greater role we see for the Bank and the Fund in a world in which the private financial system is retracting itself into the protected environment of the developed financial markets, the Bank and the Fund will have to increase their financial resources by increasing quotas and capital. South Africa supports this enhanced role for these institutions.

In conclusion, I reconfirm South Africa's commitment to cooperate with the Bank and Fund in their endeavor to achieve their laudable objectives.

Statement by the Governor of the Bank for Peru

Gustavo Saberbein Chevalier

It is an honor for me to address this distinguished assembly in my capacity as Minister of Economy and Finance of Peru and Governor for the World Bank. Allow me first of all to present my compliments to the Chairman of the meetings, H.E. Ibrahim Abdul Karim, whose inaugural address provided us with food for thought. I should also like to acknowledge the presence of Mr. Michel Camdessus, whose concern to enrich the thinking of the Fund is greatly valued by us. Let me not fail to mention Mr. Barber Conable, whose work at the helm of the World Bank is recognized by us all.

In my recent statement to the Development Committee, where I spoke on behalf of six Latin American countries, I felt it necessary to stress several points. Firstly, I referred to the significant impact of the industrial countries on international economic development in a world that is constantly growing more interdependent. I shall therefore reiterate our conviction regarding the need to surmount economic policies that produce slow growth in the industrial countries, that push interest rates to excessively high levels in real terms, and that foster a rise in protectionism in the developed world.

Thus, when I listened to both Mr. Camdessus and Mr. Conable giving their assessments of the international economic situation, I could not fail to note a great similarity with our own position. Mr. Camdessus, for example, spoke of reducing the fiscal deficit in the United States and the impact of this on interest rates, exchange rates, and, most significantly, the allocation of savings throughout the world.

I also pointed out that the policies of the industrial countries had resulted in a substantial reduction in our export earnings, an increase in our external debt

service burden, and an erosion of our payment capacity. All this has contributed to the drop in production and per capita income in the developing countries.

But it has also contributed to the drop in investment and employment levels, a fact which places not only the present but also the future in jeopardy. In the case of my country, Peru, the per capita reduction was of 20 years, doubling the decline in Latin America.

Today, however, no one doubts that the economies of the developing countries need to follow a sustained pace of growth. No one doubts the need for a substantial increase in productive investment. For this reason, I should like to stress that the benefits of increasing the supply of external financing to the developing countries will be felt worldwide. Everyone knows that this is essential if we are to boost investment and hence to accomplish the development of our nations.

I should now like to discuss the question of the debt within this context, since the reduction of our borrowing capacity places a constraint on our development. In this connection, I should like to draw attention to certain of the ideas put forward by Mr. Conable and Mr. Camdessus on the subject of the debt and financing: firstly, admission of the principle of shared responsibility for generation of the debt, a principle all the developing countries have maintained ever since the debt crisis erupted; secondly, recognition of the need for urgent access to new financial resources for development. We know that such an increase will also mean a reversal of present financial flows, so that they become positive. Here, it seems to me essential to stress the important role the international financial institutions can play, provided their capital is increased.

Accordingly, we wish to stress that we concur with the diagnoses arrived at and the objectives decided upon, and we hope we shall be able to concur soon with the decisions as to what policies and measures are best suited to meeting the development challenge.

I shall now briefly go over the Peruvian Government's efforts to restore equilibrium in all markets and above all to pave the way for equitable and just development in the various social sectors, particularly the poorest.

The economic recovery program, applied since July 1985, was based essentially on stabilizing costs and expanding revenue, so that the desired increase in demand would revitalize the economy by putting idle capacity to use. This recovery process has made itself felt in the Peruvian economy in the following fields.

—Most enterprises have increased their sales, diminished the burden of their fixed costs, and strengthened their financial condition and net worth. The result has been a substantive improvement in the health of Peruvian banks as well as of the enterprises themselves.

—The real income of urban workers has recovered after a decade of steady deterioration in their purchasing power, which had reduced the minimum wage to $27 per month.

—National income rose 15 percent in 1986. This increase resulted from an 8½ percent growth in GDP, the recovery in real wages, and a reduction in net payments to external factors. The growth in national income meant a 13 percent increase in per capita income in Peru.

—Despite all this, per capita income is still at the 1974 level.

—Rural workers, who make up a major share of my country's population, have benefited more than any other segment from our economic policy. The farm workers who live in the mountainous areas, previously ignored in development planning, have substantially improved their incomes. The prices of the goods they sell have risen more than prices as a whole, improving the terms of trade in favor of agriculture.

In addition to these facts, we must note the progress made in our fight against inflation. When the Government I represent took office, inflation exceeded 250 percent at an annual rate. By the end of 1986, it had fallen below 65 percent, though it must be recognized that the rate has increased somewhat in the last few months, but not to the level reached in the first half of 1985.

I must also point out that GDP will grow by some 7 percent in 1987, and employment will increase at a similar rate. Gross fixed investment, which declined from 1982 to 1985, grew significantly in 1986, especially in the private sector, where it rose by more than 20 percent.

My Government recognizes that, despite the economic progress made in these two years, Peru's problems are far from having been solved. What has been done is only a first step; we have much more to do. And in our efforts we shall rely firmly on our faith in democracy and a deep sense of justice and freedom.

Considering the better understanding that now exists with regard to the debt problem, our Government has now signed concrete agreements with several of its creditors, some of them governments, some banks, and some suppliers. With the commercial banks we have reached certain agreements that can serve as a basis for those we sign in the future with other banking institutions. With two major banks, one European and one American, we have signed agreements that benefit both the creditor and the debtor. They provide for gradual amortization of our debt on terms and conditions different from those originally agreed. Above all, they permit us to stimulate the growth of our manufacturing exports, so important to Peru's economy. For each dollar of debt paid by the Peruvian Government, we shall export for cash two dollars worth of manufactured goods with a large share of domestically added value.

Through agreements of this type, Peru has begun a process to re-establish relations with certain major creditors, which in turn has promptly made

available to us new lines of credit to meet foreign trade requirements. Another result of the agreement is the development of new export activities, which will enable us to service our debts in accordance with our ability to pay and will help us finance our imports. We are negotiating similar agreements with some of our major suppliers to the extent that it is conducive to the restoration of our commercial and financial relations with our principal creditors and to the expansion of our exports.

Today as yesterday, we express to you our desire for a dialogue and our wish to maintain and broaden our links with the international financial community.

Statement by the Governor of the Bank for Thailand

Suthee Singhasaneh

It is an honor and privilege to address the Joint Annual Meetings of the Boards of Governors of the World Bank and the International Monetary Fund for the first time.

Permit me to take the opportunity to express the appreciation of the Thai Government and the people of the Kingdom of Thailand to the President of the World Bank and the Managing Director of the Fund for their continuing support to Thailand in improving growth prospects in order to enhance the standard and quality of life of the people of Thailand and, indeed, those of the developing world. . . .

The current outlook shows that the world economy is continuing to recover, but the growth rates expected for both the developed and developing countries indicate that the process is a slow one. Although external imbalances are being reduced, the remaining magnitudes still pose a tremendous problem. For the developing countries, sustainability of the recent improvement in our current account depends, crucially, not only on our perseverance with adjustment efforts but also on the world trade environment. However, with the prevailing low prices of commodities, while the already slow growth in world trade is being further inhibited by protectionism, we cannot ignore the possibility of a setback. Therefore, in order for this progress to be maintained, realistic and consistent policies must continue to be pursued by all, so as to foster stability and create an environment conducive to growth in the world economy.

In this regard, we commend the increased efforts of major countries to stabilize their exchange rates and urge further efforts to alleviate the detrimental effect of uncertainties in the international financial system. We fully encourage their commitment toward policy coordination, as well as the role of the Fund to reinforce such action through the use of indicators in surveillance.

A hospitable environment is essential if we are to be able to deal with the overwhelming debt problem, which remains a tremendous obstacle. To support the continuity of adjustment efforts of debtor countries, the prerequisite of a real solution remains in their abilities to earn foreign exchange through competitive exports. In the interest of all nations, therefore, we urge that protectionism and the use of restrictive measures be halted before they cause further damage, both to the fair trade system and to the stability of the international financial system.

The possibility of sustainable growth on a global basis depends, moreover, not only on the stability of the international financial system but also on its efficient working. Adequate funds on appropriate terms from the international capital market, the official sources, as well as from the Fund, are of crucial importance. In this regard, the structural adjustment facility is a welcome element, and further efforts to triple this facility deserve support. In view of the Ninth General Review of Quotas not being due for the immediate future, to ensure the timely fulfillment of financing needs, we urge that access limits under the enlarged access policy be at least maintained for the meantime. As for the special facilities, it has to be emphasized that these are viewed as particularly important by the developing countries. And in the light of uncertainties with respect to the world trade environment and terms of trade, it is strongly urged that the compensatory financing facility be strengthened to provide the necessary assistance and that the conditions be kept reasonable. For the longer term, a new allocation of SDRs would also be of benefit, and members' quotas under the Ninth Review should be increased to realistic and meaningful levels.

In concluding, may I express the appreciation of the Thai Government and the people of the Kingdom of Thailand to all Governors, the President of the Bank, and the Managing Director of the Fund for accepting our invitation to host the Joint Annual Meetings of the World Bank and International Monetary Fund in Bangkok, Thailand, in 1991.

We wish to assure fellow Governors and participants of our warmest welcome.

STATEMENT BY THE GOVERNOR OF THE FUND FOR ISRAEL

Moshe Nissim

This is my first opportunity to take part in the Annual Meetings of the World Bank and the International Monetary Fund. I would like to commend the President of the World Bank and the Managing Director of the Fund for the effort and thought they and their staffs are investing in resolving the economic and financial problems of the world. They rightly emphasize the problems that

disturb us all, and, in particular, disturb the developing countries and the countries laboring under a heavy burden of servicing an external debt.

In 1986 and 1987, there were some encouraging developments in a number of less developed countries, such as the renewal of growth and the lowering of inflation rates. The slowdown in growth and demand for imports in some industrial countries and the debt service burden of many developing countries have, however, cast a shadow over the positive developments. Postponement in finding a solution for these problems can only perpetuate the situation. Lack of solutions may only aggravate such a process. This, therefore, is the main issue facing the international banking institutions and the banking system in the industrial world.

The long-term solution for the problems of balance of payments, external debt, and living standards is, first and foremost, the formation of conditions that will ensure continuous and sustainable growth. Growth requires structural changes, mainly through the increase of exporting industries. Export-led growth, however, can only succeed if the demand for imports on the part of industrial countries grows.

Increasing demand for the products of developing countries depends, among other things, on the removal of obstacles to international trade in all countries. Progress in this area in recent years leaves little room for satisfaction. In the long term, the economic stability of industrial countries, as well as the political stability of the whole world, depends on finding solutions for the problems of the developing world.

Growth needs investment. The problem is that in some developing countries living standards are so low that an adequate level of savings to provide the necessary investment cannot be attained. Thus, the only solution for the problems of these countries necessitates the import of capital. However, import of capital will not solve their problems unless a structural change takes place.

We in Israel have learned that problems of balance of payments and inflation cannot be solved without the introduction of a comprehensive and consistent policy which may also be painful.

In the first half of 1985, our inflation and balance of payments deteriorated. Inflation accelerated to a monthly rate of 20 percent, combined with depletion of our foreign currency reserves. In order to turn around these trends, Israel adopted in July 1985 a comprehensive policy which included a whole range of fiscal, monetary, wage policy, and exchange rate measures. Temporary use was made during the transition period of administrative price controls.

To date, this policy has had positive results. Inflation is down to 1.5 percent a month. This is still high by international standards, and we hope to bring it down yet further. In order to achieve this, we are restraining expenditures and have taken special measures to improve tax collection.

The main nominal anchor during the period of stabilization was a fixed exchange rate. At the beginning of the process we fixed the exchange rate to the U.S. dollar, allowing our currency to devalue relative to our basket of foreign currencies. Later on, we fixed the exchange rate to the basket of currencies. Ten months ago, we managed to devalue our currency by 10 percent without any noticeable effect on the rate of inflation.

We have also adopted a restraining monetary policy, resulting in high real interest rates which helped to support the stable exchange rate. These rates started to decline at the end of 1986.

Stabilization of the economy and the improvement of our financial situation have enabled us to focus our attention on finding long-term solutions and thus laying the foundation for renewed growth.

In order to create a suitable climate for growth, income tax as well as capital market reforms were introduced. We believe that the income tax reform, which brought the maximum marginal tax rate down from 60 percent to 48 percent, and the corporate tax from 61 percent to 45 percent, will encourage motivation to work and invest.

The noteworthy reduction in the budgetary deficit in 1986 permitted us to make a considerable reduction in government involvement in the capital market. In the past, the business sector was crowded out by the Government. Now, business has room to raise money in the capital market.

There are clear indications that we have passed the low point of economic activity. Gross domestic product this year is expected to be 4–5 percent higher, and the product of the business sector will increase by 5–6 percent. The composition of this year's anticipated growth is well balanced. Particularly encouraging is the significant growth of investments in fixed assets.

The recovery in economic activity is also expressed in a decline of unemployment rates from 7.5 percent to approximately 5.5 percent. The rate of savings, which declined last year, is expected to rise again. The real increase in imports over the last two years was mainly caused by a growth in the import of inputs for manufacturing and fixed asset investments.

One of the main factors for the success of the economic policy is the public trust in this policy. Despite—or perhaps because of—the unpopular steps we have adopted, we have come to realize that one can win public and political popularity by courageously taking the right steps, however difficult they may be.

We realize that, despite these achievements, we are only halfway down the road in the process of economic recovery.

I often ponder how similar are the problems of a small-scale economy such as ours to those with which large countries struggle. The requisite solutions are also similar. Our experience in the last two years has served to strengthen

our conviction and belief that, when the correct steps are taken, positive results can be achieved. Our message to other countries that are in the situation in which we found ourselves two years ago is that a stabilization program can work. We will be glad to share our experience with all countries.

These days the Jewish people celebrate their High Holidays. In our prayers during these days we say: "Our Lord in Heaven: Grant peace unto thy land. Give prosperity to the world." What more can we all ask for, if not to live in a better world where peace and prosperity reign.

Let us hope that these prayers will be fulfilled in our days.

STATEMENT BY THE GOVERNOR OF THE BANK FOR ICELAND

Jon Sigurdsson

I have the honor of addressing this distinguished gathering on behalf of the five Nordic countries, Denmark, Finland, Iceland, Norway, and Sweden. On their behalf, I would like to join my fellow Governors in warmly welcoming the new Managing Director of the Fund, Mr. Camdessus. He has already made a strong impression with his leadership, and we expect much from him in the years to come, continuing the outstanding work of his predecessor, Jacques de Larosière.

Although certain positive developments have recently been noted, the performance of the world economy has fallen short of expectations in the year that has passed since our last meeting. Economic growth in the industrial countries has slowed down in each of the last three years, and the growth of world trade is expected to be significantly less this year than last. Unemployment is still unacceptably high in most of the industrial countries, and structural rigidities continue to hamper their growth. Growth in the developing countries has also slowed down this year, although the performance of individual countries varies a great deal. The debt problem that has plagued a number of countries in recent years gives cause for concern and continues to demand attention.

These familiar aspects of the world economic situation have been well covered by many previous speakers. Rather than belabor them further, I would like instead to draw attention to a few broad issues of policy.

Economic imbalances in and among the major industrial countries have unfortunately been an important feature of the international economic scene in recent years. We have, on the one hand, fiscal imbalance to a varying degree and, on the other, the current account imbalances. These twin imbalances are the root cause of exchange rate instability, which in turn has raised questions about the effectiveness of the floating exchange rate system.

The Plaza agreement among the finance ministers of the Group of Five in September 1985 had a strong impact on exchange rates. Since then, there has been a major change in the relative values of important currencies, which is a prerequisite for a reduction in current account imbalances.

However, despite these significant exchange rate adjustments, current account balances have not shifted accordingly. But evidence is now coming to light indicating that trade flows have begun to respond to changes in the relative values of currencies. It appears that the lags of adjustment are longer than had been expected, and considerable correction seems now to be in the offing.

The Plaza agreement and the Louvre accord of February of this year, as confirmed at the Venice summit, have shown that orderly adjustment, leading to greater exchange rate stability, can take place under the present system. Although exchange rates have fluctuated a great deal since the beginning of floating, exchange rate adjustments of the last two to three years and the response of trade flows have been relatively orderly. The volatility and perceived inappropriateness of exchange rates in recent years are a reflection of deficient macroeconomic policies. It is primarily these policies that need to be changed in order to restore balance to the international economy. By the same token, the recent tendency of interest rates to creep upward is probably mostly due to a lack of confidence in the resolve of major country governments to deal effectively with the lack of balance in their economies.

Consequently, the main task of international economic cooperation should be to strive for compatibility of economic policies in the industrial countries in order to bring stability to the exchange markets and, more importantly, to pave the way for sustained, noninflationary growth. The most important step toward better balance in the global economy is coordinated fiscal action in the three major industrial countries, the United States, Japan, and the Federal Republic of Germany. Japan and the Federal Republic of Germany have already announced measures to introduce fiscal stimulus to their economies. These measures are indeed welcome, although we would have liked to see earlier action of this kind. The countries I represent have repeatedly called for such action in the surplus countries over the past few years.

This year we have seen an important reduction in the U.S. federal budget deficit. However, this improvement seems to a significant extent to be based on transient factors with little evidence indicating lasting fiscal consolidation. The recent decision of the U.S. Congress to reaffirm the policy of medium-term deficit reduction is all the more welcome. It is difficult to foresee an orderly reduction in international current account imbalances without fiscal consolidation in the United States. If the deficit reduction policy in the United States fails, we would face either mounting protectionism or a further decline —perhaps a substantial fall—in the exchange rate of the dollar, possibly

accompanied by rising interest rates and inflation. It is a choice between two evils which we want to avoid.

I have so far focused on the fiscal policy of the three major industrial countries. This, of course, reflects their overriding importance in the global economy. Economic policy in the smaller industrial countries and the newly industrializing countries is obviously also important for the international economic environment when these countries are taken together. All countries large and small should be conscious of the international implications of their domestic policies and contribute to the process of adjustment.

We welcome the steps taken by the major industrial countries to strengthen the coordination of economic policy, as evidenced by their recent joint declarations. We support the efforts undertaken by the Fund to monitor economic developments through a comprehensive set of economic indicators as a part of effective multilateral surveillance of its members' policies. The systematic monitoring of economic indicators is a useful addition to the surveillance procedure and is likely to improve the symmetry of the surveillance process and make the Fund more effective in performing its central role in the international monetary system.

Effective surveillance provides a basis for coordinated action by sovereign governments that realize that solutions to interdependent problems must be sought jointly by all. In the final analysis, the actual results are dependent upon political commitment. The surveillance procedures must be such that they bring this out clearly and encourage that commitment.

As I mentioned earlier, the economic situation of the developing countries varies a great deal. The newly industrializing countries of Asia are doing quite well, while the situation of many commodity-exporting countries is precarious. Many of these countries are in sub-Saharan Africa. It is alarming to note that for Africa as a whole, per capita real GDP has fallen in every one of the years from 1981 to 1987. These have indeed been seven lean years for Africa. The question is: How can the next seven years be made better?

The problems many of these countries face are so deep-rooted that the Fund's ability to deal with them through its ordinary credit facilities will always be limited. We have been impressed by the efforts undertaken at the initiative of the Managing Director of the Fund to enhance the resources of the structural adjustment facility to assist these countries, and we endorse that initiative. I would like, however, to emphasize that in our view the structural adjustment facility alone cannot provide the solutions to structural economic problems. Its financial role will of necessity always be limited. Its catalytic role can, on the other hand, be very useful. The main burden of alleviating the financial difficulties of the low-income countries will continue to be borne by multilateral development banks and official development agencies. Last, but not least, the developing countries themselves need to implement comprehensive adjustment policies. In this context, I would like to welcome the recom-

mendation of the Interim Committee to maintain unchanged access limits in the coming year. I also want to register once again our support for a substantial quota increase under the Ninth General Review of Quotas, so that the Fund's regular lending activity may once again be based primarily on its ordinary resources.

Before concluding, I would like to comment briefly on the international liquidity situation. The Fund's effort in this area has, in recent years, mostly been devoted to regular consideration of SDR allocations. Plainly speaking, these discussions have been on a dead-end street for a long time. In our view, a study of the overall international liquidity situation might now be warranted. We may already have spent far too much time—without success—on just one very small reserve component, namely the SDR. We need a wider approach. For the record, I want to reiterate that the Nordic countries continue to be in favor of a moderate allocation of SDRs.

Many formidable challenges face the world economy today. To meet them successfully, we need a commitment to international cooperation. This commitment has long been the hallmark of the International Monetary Fund. May it continue to be so.

Statement by the Governor of the Bank for Belgium

Mark Eyskens

I believe that we can and must say that during the past year the international institutions, and particularly the World Bank and the International Monetary Fund, have spared no effort to master the problem of the indebtedness of a large number of developing countries. The managements of the Fund and of the World Bank have conducted their efforts with great insight, dexterity, and imagination, and with manifest courage. I would like to commend President Conable and Mr. Camdessus, the Managing Director of the IMF.

Nonetheless, the debt problem continues to cast a very threatening shadow over the future of the affected countries, over the world economy in an epoch of insufficient economic growth, and over the continued operation of certain financial mechanisms and the normal functioning of the financial markets.

I am of the opinion that the effective management of indebtedness, or more precisely of overindebtedness, requires us to draw a fine distinction between the past and the future, that is to say, between how to treat the presently existing debt, on the one hand, and how to place at the disposal of the developing countries the additional financial flows which will permit them to achieve a normal economic development, on the other.

Let us first attempt a convergence of our viewpoints concerning the management of existing debt.

It is self-evident that any management of the existing debt of the countries afflicted with overindebtedness must take place within a framework of multilateral consultation on a case-by-case basis. A policy of restructuring and economic adjustment is, for the majority of the indebted countries, the sine qua non for disarming, and dismantling, the time bomb of overindebtedness. But we must be vigilant, both as Governors of our institutions and, especially, as the representatives of highly industrialized countries, to ensure that whenever and wherever this policy of restructuring and adjustment of economic, industrial, and financial entities is installed and set in motion, due attention is paid to the limits of political and social tolerance. It is better to take five years and succeed than to fail in one year by forcing adaptation efforts which exceed the adjustment capacity of the body politic.

The foregoing is not a plea for a policy of accommodation. The indebted countries must now and must continue to apply course corrections in numerous areas. At the same time, the vulnerability of the international banking system must be kept in mind. Debt repudiation could set off, among the creditor financial institutions, a chain reaction whose consequences would rapidly pass beyond control.

The management and mastery of the debt of the developing countries, in a framework of international cooperation, must avoid veering either into deflation or into inflation. A radical compression of the external indebtedness of the debtor countries could inflict such an excessively brutal reduction of purchasing power and braking of imports that its deflationary effects could spill beyond their borders; while certain kinds of refinancing on the part of the creditor countries, based on substitutions of an increasingly monetary character, could reawaken the threats of inflation, higher interest rates, macroeconomic imbalances, and finally, the stagnation of the world economy.

In practice, we must negotiate, as often as necessary and through the appropriate agencies, rescheduling agreements for the debt of the developing countries, with particular care for the poorest countries and notably the countries of sub-Saharan Africa. The Paris Club, in which Belgium plays an important role, furnishes a good example of international cooperation. I am very pleased to say that recently the conditions of reschedulings, in terms of repayment periods and grace periods, have become more favorable to the debtor countries.

I would like here to restate the proposal made by Belgium, among other countries, which consists of linking the debt service of the developing countries to fluctuations in the prices of the primary commodities that they produce. This kind of mechanism has been built into a financial package for a major Latin American country. Despite the well-known difficulties of administering it, this approach definitely seems to me quite promising.

It is extremely important for the industrial countries to keep up their official development assistance efforts. The economic crisis of the past decade has somewhat reduced the effort being made. In light of the restored growth potential of the economies of the highly industrialized countries, a larger transfer toward the developing countries seems appropriate, provided that the proceeds are integrated into complementary economic development programs in the countries receiving the assistance.

Another essential factor in alleviating the burdens of overindebtedness is the level of interest rates, especially the lowering of real interest rates. The interest rate behavior is an economic variable largely determined by the restoration of major macroeconomic equilibria in the countries of economic dominance. In the present case, those countries whose economic impact is global need to make greater efforts to correct their budgetary and balance of payments deficits, but without resorting to protectionist measures whose globally harmful effects are no longer to be doubted.

If we wish to avoid a financial cataclysm of global dimensions, followed by a veritable economic implosion, the debt problem must be approached and solved in a framework that recognizes the absolute necessity of solidarity and that provides for negotiated cooperation between creditor and debtor countries. Let the past, as worrisome and pregnant with consequences as it is, be past; we must now courageously face the future and imagine, together, the very best manner of building it better.

As a means to this end, the Baker plan has lost none of its importance. But since its launching, we have been aware of numerous impediments to its realization. The financing of the commercial needs and normal investments of the developing countries by the normal financial intermediaries and market mechanisms will remain difficult as long as the snowballing of debt and its gradual absorption have not found a more concrete set of solutions. It would be easy, but demagogic, to insist that the banks have but to grant credit at high risk and a low return. That is why I wonder if we should not examine the possibility of putting in place an agency of multilateral guarantees under the aegis of the World Bank and the International Monetary Fund. General and unlimited guarantees are obviously out of the question. But in certain cases and under certain conditions, I think it would be wise to consider a mechanism of multilateral guarantees for new money granted to developing countries.

The idea advanced by the Managing Director for substantially increasing the resources of the structural adjustment facility has Belgium's total support. We would even favor tripling it, on condition that this was not to be done by budgetary means on the part of those countries working today and tomorrow for the adjustment of their own public finances. This is the case of my country. We propose that the IMF make available to our central banks a credit that would be liquid, and this would be the basis of financing on our part. Last spring, Belgium proposed the sale of a fraction of the Fund's gold. Since this

idea still evokes a number of reservations, we might consider in parallel the possibility that the affected members would renounce a part of the interest accrued on their credit positions in the Fund. In this way, the operation would become truly multilateral, inasmuch as it would include all the industrial countries and certain developing countries with balance of payments surpluses.

It is additionally necessary for the member countries to participate in augmenting the owned funds and the resources requested by the various international agencies. Thus, the Eighth Replenishment of the resources of IDA should make available greater financial resources for supporting the activities of the structural adjustment facility.

Belgium supports the World Bank's request for a capital increase. This increase should be accomplished without further delay by means of a general increase distributed in proportion to present subscriptions. I am also glad that the Ninth General Review of Quotas has been undertaken by the International Monetary Fund's Executive Board. I hope this exercise will shortly result in a positive decision.

Last year, on the occasion of our Annual Meetings, I had occasion to underline the importance of the search for a structural solution to the debt problem. For the future, any new accumulation of enormous debt by a number of Third World countries must be avoided in view of the difficulty of resolving the problem of existing debt. One of the structural solutions I then put forward was the replacement of claims with participations in the industrial and economic assets of the indebted countries. But I added that such a debt/equity swap was not conceivable in a bilateral setting, since this would give rise to renewed dependencies between the industrial creditor countries, on the one hand, and the developing debtor countries, on the other, of a kind belonging to a past era of our history.

I proposed that the International Finance Corporation would be the perfect candidate, as a multilateral agency collectively managed by our international community, to organize non-debt-generating flows in the indebted countries and to facilitate, in certain cases, precisely these kinds of debt conversions into equity participations. This is an absolutely essential strategy, and we attach to it the highest value.

Belgium has for many years insisted on the need for a new allocation of SDRs in order to increase the owned reserves of many countries without specifically requiring them to have a positive balance of payments position. In order to facilitate an agreement on a new allocation, Belgium proposed that these SDRs could be endowed with certain conditionality that would ensure their utilization in connection with restructuring programs. . . .

Finally, at the end of our deliberations, I would like to stress the great desirability—if we wish to avoid the worst inevitability—of a patient restructuring of the international monetary system.

I observe in many of those responsible for the conduct of monetary and financial policy all over the world a growing awareness of the need for a more orderly international monetary system, following the sometimes bitter experience with floating exchange rates, which have brought neither stability nor a readjustment of external accounts, though spontaneous readjustment was the decisive argument of the academic salesmen of the theory of floating rates. I discern, ever more clearly, a certain nostalgia for the Bretton Woods agreements, all the while knowing full well that a return to the exact status quo before August 15, 1971 is totally out of the question because of the profound changes which the world economy and, above all, its monetary makeup have undergone since then.

Indeed, it must be admitted that the operations of certain insufficiently controllable mechanisms have given rise to the emergence of a veritable monetary galaxy, floating free, so to speak, above the surface of the earth, and totally unconnected with any normal financial requirements: neither those of industry, nor of international commerce, nor yet of economic growth. This is a structural phenomenon of the first importance, and one which brings in its wake grave dangers of global disequilibrium. This makes the restoration of a certain order to the international monetary system all the more necessary. The point of departure for our consideration of this issue must be a paradox.

In fact, it has become more and more evident that the most thoroughgoing liberalization of exchange rates, which are then allowed to float freely in response to exchange market forces, in time inevitably gives way to state interventionism, covert or overt, which is directed at the control of international trade. It is thus the very deregulation of exchange rates, which, through a paradoxical mechanism of cause and effect, spawns a dangerous and protectionist regulation of the free exchange of goods and capital. It is the unmasking of this paradox that leads us inescapably to conclude that every means at hand must be used to restructure the international monetary system.

I can therefore only rejoice at the Louvre agreement, which has not only the virtue of existing but the surpassing virtue of functioning efficiently. It has helped over the past year to rebuild confidence and to reopen the prospect of economic development in a context of monetary stability. This stability in the rates of the most important currencies is of crucial importance to the European Community in its labor of strengthening its European Monetary System (EMS), as we once more demonstrated at the last meeting of that Community's Finance Ministers when we set up a supplementary system for the joint support of the currencies composing the EMS.

It goes without saying that greater monetary stability at the international level cannot fail to benefit from the International Monetary Fund's elaboration and application of a system of economic indicators, which will play the role of beacons marking out a common analytical framework. We favor the strictest possible application of these indicators in the service of a multilateral harmo-

nization, to be enforced by constant surveillance and monitoring of the medium-term behavior of the fundamental variables of the international economy.

Belgium, for its part, has not abandoned the idea of establishing the famous monetary target zones, which, supported by an enhanced multilateral surveillance, would lead to a more coordinated, more objective, and more stable management of the international monetary system and of the world economy.

The industrial countries ought to be more concerned about the prospect of less dynamic economic growth. International cooperation is both easier and more effective in a context of sufficiently high economic growth. To achieve this, the economically dominant countries should follow a double-tracked policy. The first track is that of industrial restructuring and modernization, including the reabsorption of large macroeconomic and budgetary imbalances; the second track is that of supporting and revitalizing demand and consumption by noninflationary means. It is only through the reduction of fiscal and para-fiscal pressures that this can be accomplished. Many countries are following this track, which I believe to be the right one. Belgium, for its part, also intends to reduce considerably fiscal pressure on the revenues of labor.

Thus, after many years of trying to determine which economic doctrine and which economic policy to follow, we can today very opportunely abandon a binary analysis that pits the partisans of a Keynesian policy of demand support against the advocates of supply-side policy.

Truth to tell, in the light of experimentation carried out in many countries, we can conclude that the moment of synthesis is at hand. What is the point of restructuring supply and our industries, of promoting research and development, if demand is to be swamped by policies of austerity?

By the same token, what use is it constantly to stimulate demand if the supply is obsolete, rigid, unprofitable, uncompetitive, and squashed flat by the expenses of the welfare state? It is, then, the finely tuned synthesis of a double-tracked policy that supports demand under certain conditions and restructures supply under other conditions that is increasingly interposing itself. For the sake of brevity, I would characterize such a synthesis of economic policy and such a policy of synthesis as a Keynesian supply-side policy. And so it turns out once more that the truth, as so often happens, is to be found midway between extremes.

Statement by the Governor of the Bank for the Netherlands

H.O. Ruding

I welcome the new Managing Director, Mr. Camdessus, and wish him all success in his new function.

The international recovery is now entering its fifth consecutive year and is expected to continue. Although this gives cause for satisfaction, major problems remain: unemployment in many industrial countries is still too high, international payments imbalances remain large, real interest rates continue to be high in industrial countries, protectionist pressures have not abated, and the external debt problems persist in many developing countries. For a number of the developing countries, these problems have been exacerbated by capital flight due to unrealistic interest rates and exchange rates and, more generally, by a lack of confidence in their economic or political climate.

In order to tackle these various problems, the industrial countries should reinforce their strategy of noninflationary and durable economic growth. Monetary and fiscal policies should be aimed consistently at stability and balance of the economy, which is also the only path toward lowering both nominal and real interest rates in the medium term. A more vigorous implementation of structural adjustment measures is called for. Of paramount importance is the reduction of trade protection. A removal of barriers to trade in goods and services would significantly enhance the prospects for economic growth in both industrial and developing countries. Against this background, intensified international policy coordination is called for. We welcome the increased awareness of this among major industrial countries, as well as their acceptance of the need to pursue a greater degree of exchange rate stability. This requires consistency of policies, as well as more attention in national policies to their external repercussions and the willingness to discuss all this in a multilateral framework. The Netherlands, therefore, welcomes the enhanced role of the Fund, both in the discussions among major industrial countries and in Fund surveillance itself.

Last year, the Fund established procedures for the use of a limited set of key economic indicators in its surveillance. As the present document on the world economic outlook shows, these indicators are proving helpful in assessing systematically both the economic policy stances in the major industrial countries and their international consistency. In applying the criteria for coherence and sustainability of policies, the Fund should emphasize exchange rate stability, given the clear desire of the international community to achieve this.

At its latest meeting, the Interim Committee reconfirmed the central role of the Fund in the international debt strategy for the middle-income developing countries, in particular in assisting countries to design adjustment programs and in mobilizing finance. It also rightly welcomed the close cooperation between the Bank and the Fund on these matters, which increases their combined leverage and effectiveness.

Unfortunately, there have been certain cases in which the Fund has approved country programs with insufficient conditionality. Any slippage from packages based on sound economic criteria will, in the longer term, result in unsustainable situations for the borrowing countries concerned, which would

be detrimental to all parties involved. I believe that if we allow Fund conditionality to be watered down, the international debt strategy will be jeopardized. We, as Governors for the Bank and the Fund, should be fully aware of these dangers and resist the temptations of political expedience at the expense of objectivity and equal treatment. This would undermine multilateralism and endanger the spirit of international cooperation on which the well-being of the world economy to a large extent depends. At the same time, adjustment programs must pay due attention to the most vulnerable groups in society, in order to help the responsible governments in making these programs socially and politically acceptable.

In view of the desirability of continuing support for sound adjustment programs in debtor countries, a substantial increase in Fund quotas is necessary. The Fund's reliance on borrowed resources should be reduced, and members' quotas should provide the basic source of financing for the Fund's operations. Given that such an increase cannot be realized in the short term in view of the greater urgency of the capital increase of the World Bank, it is acceptable that the current limits under the temporary policy of enlarged access to Fund resources should be maintained in 1988. . . .

It should be stressed that even a strong and active Bank and Fund, including their roles in catalyzing new finance, can meet only part of the total financial needs of debtor countries. From this perspective, it is encouraging that both debtor countries and creditors are increasingly developing new market-oriented instruments adapted to various debt situations, such as exit bonds, debt-equity swaps, and other debt-conversion schemes. These instruments now appear to have the potential of providing more than marginal alleviation of debt problems. The "menu" of options approach should, however, not contain any kind of guarantee by the Bank, the Fund, or national governments to secure commercial bank claims on borrowing countries. Such guarantees would amount to bailing out and would interfere with the refreshing approach to negotiations between debtors and creditors entailed in the menu.

I now turn to the debt problems of the low-income developing countries. I note with satisfaction that we appear to be moving steadily toward a more forceful strategy in this respect. Since the problems of the low-income countries are deeply rooted, it is natural for the World Bank, as a development institution, to take the lead in this area. Therefore I welcome the World Bank's Special Action Program for heavily indebted, low-income countries in sub-Saharan Africa. . . .

Let me say a few words about the specific tasks of each party. First and foremost, adjustment is essential, and I appreciate the often painful adjustment efforts undertaken by many African countries. Both the World Bank and the Fund cannot only offer invaluable policy advice to these countries, especially in the context of policy frameworks to be set up by the authorities of the

countries concerned, but can also catalyze, by their mere involvement, the release of new funds.

As far as the Fund is concerned, it may itself offer enhanced balance of payments assistance to the low-income countries on concessional terms. However, in view of the structural nature of the problems in these countries, the Fund should be cautious in using its ordinary, temporary facilities for this purpose, as this could result in a further increase in arrears and in a de facto locking-in of Fund credit. This would be in nobody's interest: neither in the interest of the Fund itself, as the revolving character of its resources would be jeopardized, nor in the interest of the debtor countries, as it would not only endanger their eligibility for the use of Fund resources but could also harm their relations with other creditors and donors. Consequently, it would appear sensible to separate the Fund's normal operations from its structural adjustment facility (SAF) or SAF-related lending. Specific problems of individual donor countries call for flexibility on the part of the Fund if it wishes to maximize new resources for the SAF. Certainly, in view of the special character of this type of lending, combined financing with the World Bank is to be recommended. Also, other modalities require further discussion. In such a setting, the Netherlands strongly supports the initiative to enlarge substantially the size of the SAF, provided of course that there is fair burden-sharing and that adequate conditionality is attached to SAF programs.

As opposed to the Fund's involvement in balance of payments finance, the need of low-income countries for external long-term development finance should be fulfilled by the World Bank, the regional development banks, and donor countries. . . .

The World Bank's action program rightly underlines the importance of debt relief measures, and, therefore, I welcome the agreement reached in the Paris Club to lengthen grace and repayment periods in reschedulings of guaranteed or reinsured export credits for low-income countries. In addition, it is worth noting that the Paris Club is considering lowering interest rates. The Netherlands, while recognizing the constructive spirit of this initiative, feels that further study is needed, because the application of concessional rates of interest belongs rather to the field of official aid than of commercial credits. I should like to call upon donors to take debt relief measures for ODA debt, including the conversion of ODA loans into grants, on a case-by-case basis. The Netherlands has already done its part in this respect in assisting low-income countries with adjustment programs in place.

Let me make a general remark about Bank-Fund cooperation. It has been said that closer cooperation between these two institutions in the area of policy formulation would lead to cross-conditionality. In my view, the conditions attached to policy-based, macro-oriented lending of the Bank and the Fund will necessarily partly coincide, because both the Bank and the Fund try to tackle the same economic problems in the same countries, although from

different angles, in line with their different character and task. Thus, to some extent, similar conditionality is to be expected, even when programs are formulated independently by the Bank and the Fund. However, this should not be interpreted as cross-conditionality, in which commitments and disbursements under the respective programs of both institutions would formally depend on each other, but rather as a natural coherence that is to be welcomed. . . .

As a final remark, I want to stress once more the importance of the Bretton Woods institutions as independent forums for multilateral cooperation. Both the Bank and the Fund have, by and large, lived up to their respective tasks in tackling the world's most urgent financial and economic problems so far, and we should enable them to continue to do so. Therefore, we should make rapid progress toward a general capital increase for the Bank and a quota increase for the Fund.

Statement by the Governor of the Fund for Bolivia

Juan Cariaga Osorio

Mr. Chairman, fellow Governors, please allow me in the first place to express the full support of my Government of the very important role of the International Monetary Fund and the World Bank in their initiative for adjustment and development problems. Also, please allow me to welcome Mr. Camdessus in his very important responsibilities at the International Monetary Fund.

It is a great honor for me to address this Board of Governors and to explain how one developing nation is making determined efforts to implement an adjustment program intended to stabilize its economy, launch a process of sustained growth, and possibly provide a solution to its external debt problem.

In the light of results achieved so far, we are convinced that the Baker initiative and the adjustment programs advocated by the International Monetary Fund and the World Bank are what is needed to achieve those objectives. Bolivia has managed to cut its annual inflation rate from 24,000 percent in August 1985 to 10.9 percent for the 12 months ending in August of this year. Gross domestic product, which declined by between 20 and 30 percent over the previous six years, has for the first time shown some growth, estimated at 1 percent, during the first half of 1987. We expect that by the end of the year an annual increase of 2.5 percent will have been achieved. The most important fact is that unemployment, which increased in the course of the previous six years from 6 percent to 20.5 percent, fell by 1.5 percent in the first half of this year. All these results have been achieved through an adjustment program, liberalization and market orientation of the economy, a major tax reform that

has increased government revenue, and a single uniform tariff system that is free of restrictions on external trade.

Despite these efforts, which are those of the Bolivians themselves and a reflection of the political will of their leaders, we believe that the conditions under which the country can continue the process of permanently sustained growth are still lacking. Bolivia must go on shouldering the heavy burden of its external debt; the sacrifices made in the attempt to overcome the effects of the crisis thus have not brought us any nearer to our goals. For this reason, and being acutely aware of their responsibilities, the Bolivian financial authorities have negotiated a way out of this problem with the private international banks. Like the majority of economic transactors, banks recognize that despite Bolivia's valiant efforts, its national debt calls for a creative, imaginative solution. This intense search has now led to an agreement under which the country will be able to buy back its external debt with resources from the donor countries and will have the option of converting it into equity investment.

While we, too, see the external debt problem as complex and multifaceted, we also realize that case-by-case analysis and an individual solution are required for each country. For some of them, the problem is one of obtaining access to new resources. For others, it is a matter of interest rates or maturity periods. In Bolivia's case, given the adverse nature of the terms of trade, which have virtually destroyed its export economy, there is no other way to deal with the debt than in the fashion agreed upon with the banks, which moreover coincides with the concessional treatment accorded Bolivia by the international institutions. Considering the low standing of Bolivia's debt in international secondary markets, this can in no way be regarded as a bank bail-out operation.

Nevertheless, if this agreement is to have the desired effects, Bolivia urgently requires grants from friendly countries. Without them, it will prove impossible to solve the problem, given the precise, strict nature of the terms and conditions that apply, which, if not met, will jeopardize this long series of difficult negotiations with the international private banks.

The International Monetary Fund has supported our initiative by accepting the idea of a trust account into which donor countries can pay their contributions, thus vouching for the serious intent behind the operation. The World Bank has also provided support in the form of assistance and expert advice. The only element lacking has been the effective support of the donor countries. And it is to them I wish to appeal now, in the terms used by the President of the United States yesterday when he requested their help in making serious efforts to overcome the crisis and the external debt problem.

The failure to solve Bolivia's external debt problem stands as a major obstacle to its development; it limits new investment in the country, where financial problems with the external private sector have not been resolved; it

paralyzes external trade, without the support of trade financing, which amounts to $300 million for Bolivia; and it keeps the arrears problem in a holding pattern. But the most serious consequence is that the country is not developing, that its attempts to advance are frustrated. In such circumstances, the only inference to be drawn is that the vicious cycle of unemployment, poverty, malnutrition, and infant mortality that has been characteristic of the least-developed countries could very well continue.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR VIET NAM

Le Hoang

The Annual Meetings of the World Bank and International Monetary Fund provide the member countries with a true forum for discussion of international economic, financial, and monetary operations. We also find here an annual opportunity to review and evaluate the results obtained since the previous year's meetings, so that we can draw appropriate, useful conclusions as a basis for further progress. And the Meetings give all of us a chance to pool our valuable experience in the management of our national economies, finances, and currencies.

This year's Annual Meetings are taking place in an international environment in which economic, financial, and monetary conditions have not undergone the major changes so hoped for by the members. A number of summit meetings have been held in the past year to discuss the coordination of economic activities. And yet the world's economic growth has slowed since last year and the level of international trade is stationary. The developing countries, struggling with a heavy external debt burden, are compelled despite themselves to apply more rigorous adjustment measures, while the prices of their exports keep falling in world markets. We certainly cannot be pleased that the economic growth rate fell from 3.1 percent in 1985 to 2.9 percent last year, a fall due chiefly to a decline in the growth rate of the industrial countries from 3 percent to 2.5 percent, while that of the developing countries was rising from 4.5 percent to 5.5 percent.

Paradoxically, the growth rate of world trade volume increased from 3.2 percent to 5 percent. On the surface, these developments appear contradictory. They become understandable, however, if we carefully examine export and import patterns by country group. The volume of the developing countries' exports increased by 8 percent, and even by 12 percent to 13 percent in some cases, while the industrial countries' exports increased only 3 percent in volume. The imports of the two groups declined by 22 percent and expanded by 9 percent, respectively. This situation was brought about by a deterioration in the developing countries' terms of trade, with the prices of their exports

falling sharply. Clearly, this state of things, far from helping to stabilize the world economic situation, is deepening the contradictions between North and South. As a result, the number of developing countries compelled to strengthen their adjustment effort to cope with a relentless deterioration in the ratio between their export revenue and their external debt payments is steadily increasing. This adjustment process is characterized by rigorous measures to mobilize all possible resources for export while curtailing imports and external debt.

The Bank and the Fund have on a number of occasions devised policies aimed at helping the developing countries carry out adjustment programs focused on development rather than severity. These policies cannot be implemented if the industrial countries do not coordinate their financial and monetary policies, with the aim of improving the terms of trade of the developing countries and gradually resolving their external debt problems.

It will be in the interest of the Bank and the Fund, working together with the debtor countries, to devise effective means of ensuring the coordination of the policies of all member countries with a view to promoting development. Creating new resources for the poor countries will enable them to meet the requirements not only of economic development but also of export growth, thereby improving their balance of payments and their creditworthiness.

Numerous international organizations and conferences have recently adopted stances in favor of debt relief for the developing countries; this was the case in particular for the conference of Heads of State of the French-speaking countries. The participants in that conference, held last September in Quebec, stressed that it is incumbent on the international community to engage in concerted efforts to alleviate, if not terminate, this financial crisis.

In our view, these are positive, realistic steps that will help defuse the time bomb represented by the international debt issue. The external indebtedness of countries, which now amounts to more than a trillion dollars, constitutes a serious threat to the stability and growth of the world economy.

Against this background, we appreciate the efforts recently undertaken by the Fund to increase lending ceilings under the structural adjustment facility and triple its size in the future. These are but the first steps, however. In order to help the developing countries make better use of this facility, the Fund should be more flexible in assisting them with the preparation of their adjustment programs. It would also be desirable for the Fund to move in the direction of a fifth allocation of SDRs as soon as possible, so as to provide additional resources to the poor countries.

Permit me now to present an overview of the economic situation in Viet Nam. Certain improvements have taken place in our economy in the past few years, although it continues to suffer from many problems because of serious economic imbalances that have long existed. There are several reasons for

this, both internal and external. Domestically, production capacity is underutilized because of a shortage of materials, capital, and technology. Externally, we have a very large balance of payments deficit and only negligible reserves. As a result, Viet Nam's national product and per capita income are among the lowest in the world. It is the sincere desire of the Vietnamese Government to honor its external debt obligations, so it can obtain the new loans it needs to carry out its three major economic programs. Unfortunately, our balance of payments situation prevents us from doing so at this time.

In these circumstances, we are compelled to implement the adjustment policies and measures required to boost production, improve the standard of living of our people, and strengthen our balance of payments. The Government of Viet Nam has taken steps to renovate its economic management and reorganize its economy in hopes of changing the situation in fundamental ways. The three major economic programs, relating to the production of food, consumer goods, and export products, are integral parts of the adjustment program under way in Viet Nam.

The implementation of these three programs, however, requires assistance from international organizations, particularly the Bank and the Fund. For almost the entire past decade, economic, monetary, and financial cooperation between Viet Nam and both the Bank and the Fund has unfortunately stagnated. We think it desirable for the Bank and the Fund to reaffirm their position and role vis-à-vis Viet Nam, which means strengthening international cooperation, helping a member meet its obligations, and thus contributing to the prosperity and general stability of the economy.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE ISLAMIC REPUBLIC OF IRAN

Seyed Ali Akbar Afjei

In the Name of Allah, the Beneficent, the Merciful.

" . . . . And We will set up a just balance on the day of resurrection, so no soul shall be dealt with unjustly in the least. . . ."

The Holy Quran, XXI:47

The joint Annual Meetings of the World Bank and the International Monetary Fund provide an appropriate opportunity to review the main economic events of the year and to draw specific conclusions. I join other speakers in offering our sincere appreciation to the organizers for their worthwhile efforts. I welcome Mr. Camdessus as the new Managing Director of the International Monetary Fund. We wish him success in his endeavors.

The global economy, since the 1986 Annual Meetings, has not demonstrated any fundamental turn toward improvement. In many respects, in fact, signs of further deterioration have appeared, while in most areas, the lack of an appropriate global monetary and financial system has prolonged the current problems and has revealed the absence of any coherent and purposeful future direction of the world economy.

The past several years have shown that, contrary to some beliefs, the present economic structure and the so-called free market forces can be easily manipulated so that, if left on their own, they can result in distortions and serious misalignments, as may be seen in some countries.

International trade and payments showed erratic movements in 1986. While trade by industrial countries rose noticeably, exports by the developing countries fell by 7 percent, whereas their imports stagnated, almost wiping out a $45 billion trade surplus in 1985. The share of developing countries in world trade, moreover, fell to some 25 percent, its lowest rate since 1979. Raw material and commodity price indices continued their precipitous decline in 1986, and it is estimated that, in real terms, they reached a trough unprecedented in the past 50 years.

The sharp decline in developing countries' terms of trade to the tune of 17 percent in 1986 seriously undermined the economies of these countries, with oil exporters, through a 51 percent terms of trade deterioration, suffering most heavily in the process. Such declines in oil and raw material prices, in turn, ensured the strengthening of the industrial country terms of trade by 9 percent in 1986. On this basis, the current accounts of the industrial countries showed noticeable improvement in 1986, ensuring considerable surpluses for these countries.

Industrial countries, it must be noted, show great reluctance in transferring a part of such windfall gains to the developing countries. It may be remembered that after the oil price increase in 1975, the OPEC countries recycled their surplus funds. In addition, despite the falling trend in oil prices in recent years, the OPEC countries have maintained the favorable trend in the flow of credit, grants, investments, and concessionary loans to all countries, especially to the low-income developing nations, which have continued to reap its rewards. In contrast, the flow of funds and international investments, including direct investments and development assistance by industrial countries, has remained disappointing.

It is discouraging to observe that protectionism gained further momentum in 1986. Despite some initial optimism that emerged from the inauguration of the Uruguay Round of multilateral trade negotiations, trade tensions and restrictions imposed by industrial countries, especially the United States, have intensified. In contrast, developing countries greatly eased trade restrictions in 1986.

The global debt problem has increased in intensity and gravity, requiring, more than ever before, a fundamental and all-embracing solution. Notwithstanding the measures taken so far aimed at alleviating the debt burden, the ratio of external debt of the developing countries to their exports rose from 148 percent in 1985 to 169 percent in 1986. A just and lasting solution should be based on the joint willingness and cooperation of all the parties concerned. Within this framework, the debt problem should be tackled on the basis of income levels and the financial ability of the debtor countries. For middle-income debtors, debt service payments should bear a reasonable relationship to such countries' export earnings. In the case of low-income countries, basic remedies, including the rescheduling of principal and interest, debt write-offs, and other assistance, should be contemplated in appropriate cases.

Instead of charging a predetermined rate, the rate of interest on loans should be basically related to the rate of return on the investments undertaken through such loans, because, in the final analysis, it is the profitable and appropriate investments that the loans are spent upon that eventually determine the favorable return on each dollar of the loan. Thus, creditors and international financial institutions should enter into partnership agreements with debtor countries and jointly share in the outcome of the investments. Such schemes would make all the parties concerned joint partners in development, with each having a stake in the successful outcome of the loan-investment projects. The burden of the huge debts of the developing countries will thus be alleviated.

The plight of the low-income developing countries, especially in sub-Saharan Africa, continues unabated. Their debt burden, together with export shortfalls and problems in the provision of imports, poses a threat to their development. The rich industrial countries have grown less sensitive to the problems of African countries, so that the real value of the official development assistance to the deprived nations of Africa in recent years has shown a declining trend.

With regard to the lack of financial resources to proceed with the appropriate economic development of the Third World, attention must be paid to the increasing trend in armament expenditures. Based on available statistics, global arms expenditures amount to $1 trillion annually, a figure almost equal to the total debt of all developing countries. It should be further added that while the production of arms and weaponry constitutes 5 percent of the total global production of all commodities, the economic and financial assistance to the developing countries does not exceed even one half of one percent of this figure. Arms reduction will raise the standard of living and will accelerate the pace of economic and social development.

Without financial resources on concessional terms, the process of financial adjustment in developing countries will prove arduous and futile. In this connection, it is to be noted that the World Bank and the International Monetary Fund have at last acknowledged the necessity of according priority

to the growth factor in economic adjustment and stabilization programs. Notwithstanding the reality that these institutions act as lenders of last resort to the developing countries, it seems that the Bank and the Fund, regretfully, have not shown the necessary flexibility when designing adjustment programs, nor have they shown any sensitivity toward the social consequences of implementing such programs.

The economic performance of our country during the last year has been affected by the unfavorable conditions of the world economy and the oil price decline. In such conditions, backed by the true faith of our people, the Government has not only tackled these unfavorable consequences, but has taken the necessary measures to attain economic self-sufficiency and self-reliance. This has been achieved through designing fundamental economic programs in order to effect basic changes in consumption patterns, to reduce foreign dependence, and to further promote non-oil exports.

The foreign trade of the Islamic Republic of Iran has shown the necessary adjustment in the face of reduced petroleum revenues, so that during the past Iranian calendar year our non-oil exports rose considerably, with this increased trend continuing in the current year.

A special mechanism for foreign exchange allocation has been set up in recent years, through which, on one hand, priority is directed toward essential foreign exchange expenditures, and, on the other hand, continuous supervision is exercised over foreign exchange allocation. This mechanism has proved successful in channeling the foreign exchange proceeds to the priority sectors and in reducing foreign exchange waste and inefficiency.

Such steps have enabled our country to meet its essential needs out of its own domestic resources without resorting to foreign loans. The policy of the Islamic Republic of Iran with regard to foreign payments has always been to honor such commitments on time, and this policy has been pursued without exception. However, some debtor countries that owe debt to Iran—some of which are among the industrial countries—have not honored their commitments.

With respect to economic cooperation with other countries, we believe that such cooperation should be based on mutual respect and understanding and, on this basis, we have paid special attention to expanding our ties with the developing countries and Islamic nations.

The Islamic Republic of Iran has expanded its trade and economic ties with the developing nations so that, since the Islamic Revolution, the value of our trade with the developing countries rose from 4 percent to the present 28 percent of our total trade.

With regard to the development of Islamic banking, I am pleased to inform the distinguished delegates that Islamic banking in our country is now in its fourth year of successful operation. In the three-and-a-half years since the start

of interest-free banking operations, the balance sheet has shown a good track record. Since the start of operations, total bank deposits have grown at an average of 13.5 percent per annum. The banks' credit facilities outstanding to the private sector under Islamic contracts have risen by 11 percent annually. These results clearly underscore public enthusiasm for, and people's confidence in, Islamic banking. One of the main aims of our monetary and banking policy has been to emphasize agricultural production, promote economic development, and to eventually alleviate deprivation. In this connection, the expansion of interest-free *Gharz-ol-hassaneh* loans has been a remarkable feature of our banking system, with *Gharz-ol-hassaneh* loan outlets showing considerable increase in number, and outstanding *Gharz-ol-hassaneh* loan facilities to the private sector amounting to 321.4 billion rials at the end of 1365 (beginning March 21, 1986). In addition, based on other Islamic modes of finance, especially partnership contracts, our banks succeeded in financing huge development projects last year. I may also add that total private sector deposits with our banks now exceed 8,000 billion rials.

In conclusion, I hope that these Annual Meetings can achieve their expected aims and that we may be able to overcome the adversity, poverty, and inequality present in our world today, through the cooperation of all nations.

Statement by the Governor of the Fund and the Bank for Jamaica

E.P.G. Seaga

Let me congratulate you, Mr. Camdessus, on your appointment as Managing Director of the International Monetary Fund and on the fresh look indicated by your presentation in the opening statement. I wish also to commend you, Mr. Conable, for the comprehensive administrative reform of the World Bank which we expect will improve its ability to deliver and to assist our communities.

This presentation, on behalf of the Caribbean Community Group of Nations (CARICOM), will focus specifically on the problems of the international debt crisis in middle-income debtor countries, a problem referred to extensively by both of the leaders of the twin institutions in their opening remarks.

So far, the focus of the international debt problem by both bilateral donors and international commercial banks has been confined to lowest-income countries and to debtor countries with large-scale debt. The desperate economic situation of these lowest-income countries, particularly in sub-Saharan Africa, on the one hand, and threats to the international financial system posed by the debt-servicing difficulties of the larger debtor countries, on the other hand, are more than sufficient justification for this attention.

Little attention has so far been paid to the economically constricting debt-servicing problems of the middle-income debtor countries with high and very high external debt service ratios, a large portion of whose debt service is usually to: (1) international financial institutions, which do not reschedule; and (2) bilateral donors. In addition, some of these middle-income developing countries face imminent severe problems of "bunching" of debt service payments over the next three years or so.

The following outlines a proposal to address the problems of middle-income debtor countries.

The Proposal

The gravity of the international debt crisis is now seen to be structural and not merely a problem of liquidity. The structural nature of the problem is inherently linked to inadequate export earnings arising from the depressed levels of international trade and the sharp fall in commodity prices, as well as to the high fixed levels of debt servicing that rigidly restrict the ability of debtor nations to finance adequate economic growth and service debt at the same time.

The resumption of adequate sustained growth and development must be the fundamental objective of these debt-ridden developing countries if their economies are to eventually reach a point of takeoff to a self-sustaining level of development.

In order to stimulate growth to this level, it is necessary to (1) increase resource flows substantially for investment, based on programs for both export and efficient import substitution; (2) stimulate human resource development, particularly in education and health, so as to enhance the basis for long-term growth, while at the same time minimizing short-term social tensions, which are themselves disruptive of such growth and the consequent ability to service external debt; and (3) service debt and, in the medium term, achieve programmed reduction of debt service ratios to sustainable levels.

Investable resources will be freed by any mechanism that relieves debt service. New borrowings will also add to investable resources. But if new borrowings are to be the mainstay of the investment program, new debt would be incurred, which could be to the eventual detriment of the development process unless such borrowings are on very concessionary terms.

While middle-income debtor nations recognize that the ultimate solution to their debt problem is to grow out of it through judicious and appropriate adjustment policies, they have not been able to do so, because the present mechanisms are woefully uncoordinated and deal only with part of the problem. This is because there are inadequate resource flows on appropriate concessionary terms to support such balanced and sustained adjustment programs, and also because creditor countries and agencies have not been able to

put together a coordinated approach that can satisfy both the debtor and creditor participants.

The main mechanisms open to debtor nations are the rescheduling of bilateral obligations through the Paris Club and commercial debt borrowed directly from the commercial banks. There is no mechanism for the rescheduling of multilateral debt, which, for many of the middle-income countries, forms a very important part of their external debt obligations. Moreover, the short-term nature of the International Monetary Fund's financial accommodation places countries that seek Fund assistance under severe debt-servicing pressure.

An enlightened role for the international financial institutions—that is, the World Bank and regional development banks, as well as the Fund—is central to these proposals. The decision of these institutions not to participate in debt rescheduling arises, understandably, partly from a fear of reduced credit rating and other factors that would limit their own borrowing power, harden the terms of such borrowing, and, in turn, reduce their ability to fund new programs. But there is room for participation of the international financial institutions. Currently, policy-based loans are offered by the World Bank for structural adjustment of the economy, and the Fund has in place arrangements for purchases based on policy-based programs to effect stabilization of troubled financial systems.

It is recognized that these quick-disbursing, policy-based loans for structural adjustment and for stabilization are expected to improve the ability to pay; indeed, in the case of the Fund, the servicing of debt is a conditionality. What these programs do not directly address is the inadequacy of the flows on appropriate terms to meet both economic growth and repayment targets necessary for self-sustaining development. No financing facility so far addresses the use of a reduction of the debt service ratio as a performance indicator in debtor countries.

The existing facilities target reduction of public sector deficits and improvements in the levels of international reserves. It is time that the basic problem of debt servicing be addressed directly. As a consequence, some debtor nations are deciding, unilaterally, to restrict the quantum of resources allocated to debt servicing, so as to maintain, at worst, some modicum of social stability or, at best, some minimum rate of economic growth.

There is room, therefore, for a new type of policy-based lending program that directly addresses the need both to service debt and secure economic growth. This proposed program, funded by international financial institutions, surplus countries, and commercial banks, should offer sufficient disposable resources to achieve targeted economic growth, including programs for the development of human resources, with a reduction in debt service ratios to sustainable levels as a performance indicator.

In the case of the international financial institutions, the program should be made possible by the utilization of World Bank and Fund resources for specific funding of policy-linked loans or purchases in quick-disbursing foreign exchange, based on the explicit recognition of a reduction in the debt service ratio to agreed levels annually over a suitable medium-term period of adjustment. In effect, this new policy-based lending program by international financial institutions would make fresh resources available, equivalent or comparable to the amount required to service debt due to the international financial institutions over the medium term. These new resources would then allow the existing debt payments due in each year to be paid out while establishing an equivalent new obligation to be discharged over a planned and agreed period. The new funding arrangement would, therefore, have the same effect as the rescheduling of debt by shifting to the future the effective repayment period of debt currently due.

Simultaneously, such an arrangement, targeting as it does the reduction of the debt service ratio over the medium term to a sustainable level, should encourage both the Paris Club and commercial banks to reschedule debt on a multiyear rather than on a single year basis, with repayment periods and agreement consistent with those negotiated with the international financial institutions.

Moreover, the highly efficient monitoring systems of the international financial institutions would enable economies of countries to be monitored, particularly in these new financing arrangements. Such monitoring would satisfy the requirement of Paris Club countries and commercial banks that they receive regular reports on performance as a prerequisite for the release of each tranche of the multiyear rescheduling agreement.

Logically, because of the matching arrangements of bilateral and commercial debt rescheduling with the proposed new policy-based international financial institution facility, there should be a three-way consultation on the program period, on debt service targets, and, annually, on performance levels. In this arrangement, the debtor country, in consultation with the international financial institutions, would develop its program, which would have specific objectives, targets, measures, financing requirements, and reductions in debt service ratios within an appropriate time frame. The international financial institutions would carry out the monitoring responsibility of the program in respect of their own lending and would work out reporting arrangements with the Paris Club and commercial banks for monitoring their rescheduling arrangements.

The end result of this arrangement would be that development could be programmed with greater certainty, and increased resources made available to recipients on terms that would schedule future debt service burdens on an affordable and sustainable basis.

Under the proposal, it is essential that each creditor group (that is, international financial institutions, bilateral donors, and commercial banks) seek to effect a net transfer of resources on appropriate terms to the recipient countries. Additionally, all three groups should seek to ease the debt-bunching problems of recipient countries. By coordinating the action of creditor countries and agencies, the proposal would essentially create a practical, workable system that should be mutually satisfactory to debtors and creditors.

The structural problems of debtor nations can only be successfully addressed through a coordinated, comprehensive approach on a timely basis, with resource flows that permit a program of change without chaos. These problems are as much a result of external adjustments in the international trade and payments system as they are of internal imbalances. Of particular significance is the growing stagnation of international trade and the marked upsurge in protectionism by the industrial countries. International trade in this decade is increasing by one half the rate of increase of the 1970s and less than one third the rate of growth of the 1960s, a level which is incapable of sustaining meaningful rates of economic growth.

It is against this background that middle-income countries experience the growing frustration of inadequate export earnings to pay their way and inadequate and uncoordinated debt service relief to release sufficient investable resources for economic growth.

Many middle-income countries find themselves halfway up the ladder of development; having made much of their economic gain at great social cost, they now see their prospects of further advance receding and the prospects of real decline increasing. It is in these circumstances that decisions are taken to limit unilaterally the level of debt servicing affordable. Many middle-income countries have in fact arrived at the halfway stage of self-sustaining growth after experiencing the perils of severe economic adjustment and are now facing the future uncertain whether they will be able to follow through with the social adjustments required for the longer-term development needed to reinforce economic gain. The key to their future is to find solutions to the crisis between debtors and creditors.

What exists now is stalemate and stagnation, against which background debtors and creditors are taking unilateral actions that will further aggravate the crisis to explosive proportions. The stagnation of world trade and reduced levels of export earnings, together with the net transfers from debtor countries to international commercial banks resulting from reduced credit exposure, are creating serious problems in the payments system of debtor nations and engendering an inability on their part to generate sustained growth. This, in turn, reduces the ability to sustain payments. A continuing and self-reinforcing process of economic deterioration sets in.

The solution is through planned economic expansion in the medium term. This expansion would be based on increased financial resources, on appro-

priate terms and rescheduling arrangements that are consistent with the objectives of economic development and the discharge of debt obligations. Short-term "bailouts" by new lending on a case-by-case basis on commercial terms without a framework to achieve longer-term targets are merely palliatives in many cases and do not meaningfully address the crisis.

The proposal put forward in this statement is designed to bring the significant volume of debt owed to international financial institutions into a practical rescheduling arrangement. At the same time, the Paris Club and various commercial bank creditors should be encouraged to extend their rescheduling arrangements on the basis of a targeted reduction of debt service, consistently monitored for performance. The end result would be the release of more investable resources to secure meaningful and sustainable economic growth in a manner that convinces creditors that good money is not being thrown after bad, but will enable development to win the race with discontent.

DISCUSSION OF FUND POLICY AT FIFTH JOINT SESSION[1]

STATEMENT BY THE GOVERNOR OF THE BANK FOR PAPUA NEW GUINEA

Galeva Kwarara

It is a great honor for me to attend these meetings for the first time as Governor representing Papua New Guinea.

Much has happened in Papua New Guinea over the past decade, which has been a period of construction and consolidation since our independence in 1975. Our economic progress has been largely determined by external forces. Because we are a small open economy, these outside influences are particularly important to us.

A healthy world economy injects vigor and life into all its members. The reverse is also true. It is crucial that recent improvements in the international dialogue on the world economy be sustained. Better policy coordination by the industrial countries is essential.

The developing countries have suffered as world demand has fallen and world commodity and metals prices have remained depressed. Most developing countries have experienced very poor growth performances in recent years.

We are still feeling the pinch in many areas. Prices for coffee, copra, cocoa, and palm oil, which are all very important exports for Papua New Guinea and for many other developing countries, have been consistently depressed in the recent past. This makes life difficult for the bulk of our population who are dependent upon agricultural production. Papua New Guinea has the good fortune to have some diversity in primary exports and to some extent has remained insulated by continuing buoyant gold prices and improved copper prices over the course of 1987.

It now seems clear that we cannot expect a recovery by the industrial countries to bring demand for all primary commodities back to previous levels. The demand functions of the industrial countries are continually changing as new goods and substitute products enter the marketplace. Developing countries need to be able to adapt quickly to changing technology and world circumstances if they are to progress.

[1] October 1, 1987.

Optical fibers and other innovations have cut the industrial demand for copper, and growing supplies of vegetable oils—particularly soya bean and palm—have limited the recovery of coconut product prices. Many other products have suffered a similar fate and for similar reasons. In Papua New Guinea we have been diversifying our export base and exploring avenues for the introduction of new industries.

During the late 1970s and 1980s, some developing countries responded to declining demand for their traditional exports by adopting the easy option of borrowing to fill the growing income gap rather than by cutting back on imports and generally restraining expenditure. It was believed that if enough money and capital were pumped in, then these economies would somehow magically grow. Now, the repercussions of those over-optimistic days are clearly evident in the debt service ratios of various developing member countries. The world economy must live with the consequences as many developing countries face the unenviable task of lifting themselves out of their indebtedness and persistently low growth rates. Responsibility for the success of these efforts rests with *all* members of the world economy.

The benefits of any industrial growth continue to be diminished by the onset of the "new protectionism." The record of the 1980s is of growing levels of protection, especially nontariff barriers and increased recourse to sector-specific bilateral arrangements. There are many areas of major controversy. Agricultural support schemes in the EEC, Japan, and the United States are causing major problems for all countries, as are a host of other restrictions in critical areas such as clothing, footwear, automobiles, and other manufactured goods. We will have the usual amount of nonsense spoken at these meetings by countries which practice protection while preaching free trade.

Papua New Guinea firmly supports the general liberalization of trade. The ongoing GATT talks and the role of the international organizations are crucial for several reasons. The talks must call to task those industrial countries that have failed to honor their obligations under the Tokyo Round to free trade in manufactured goods. The talks must also continue the process of reducing restrictions on agricultural trade. Finally, the talks must make some progress on freeing up trade in services. There has been some progress, but much of the developed world has failed to implement promises made in the Tokyo Round. We are frustrated that the talks are allowed to drag on for too long. Why cannot we decide on such issues quickly?

Let me now turn to questions of aid and resource flows. There appears to be a growing reluctance on the part of many donors to fulfill the old goal of contributing 0.7 percent of their GNP to the developing world. This goal seems to have been forsaken, even though it is still written into the political manifestos of many of the political parties currently in government around the world. Increasing resource flows to the developing world remains of crucial importance.

There are real constraints on our ability to pursue an effective restructuring and growth program without adequate availability of development assistance. Our traditional and generous neighbor, Australia, is going through difficult economic times and has unilaterally breached the aid agreement between our two countries. The uncertainty that is created by wealthy nations has been attacked for years in forums such as this, because of the difficulties it causes for good planning in the developing world.

We live in a turbulent world in which we are frequently buffeted by the ebbs and flows of world trade, capital markets, and the policies of industrial countries. This volatility causes instability and uncertainty in the system. Investors are hesitant and afraid to take risks. Government budgets and plans are formulated on uncertain forecasts of expected export receipts and domestic demand. Amid this muddle of uncertainties, it is important that other sources of income and assistance, such as aid and trade flows, be kept as stable and predictable as possible. There is no argument for tying aid flows to the vagaries of trade cycles in the developed countries.

Direct aid is not the only concern. The international institutions also have obligations and an important role to play. We are concerned at the trend toward decreased resource flows between the developed and developing worlds. We view with alarm forecasts that suggest major institutions such as the Bank and the Fund will shortly reach the stage at which they drain more resources from the developing world than they send to it. We face a very dangerous and conflict-ridden future if this trend is not significantly reversed. The institutions must be provided with adequate resources and their policies must be realigned to allow speedy and productive use of these resources. Increased lending by the Bank to a level of at least $60 billion over the period 1987–89 is crucial.

The problems I have outlined in relation to growth, trade, commodity prices, aid, and resource flows are of significant concern to the developing world. We all continue to *hope* that the coming years will provide a period of *hesitant recovery* in the world economy, the speed of which will depend on the policies we all pursue.

The lower oil prices, lower inflation, declining interest rates, and currency realignments of 1985 and 1986 still provide a potential base for sustainable growth. However, continued problems in the U.S. economy remain of fundamental concern. We would all be assisted by better policy coordination and more appropriate policymaking in the United States, Japan, the Federal Republic of Germany, and Western Europe.

Let me now discuss the role of the Bank and the Fund in the current world climate and especially their role in my own region of the world. While we have valued the services of the Bank and the Fund, the policies of both organizations have not always been conducive to our needs as a small Pacific

state. The international organizations and those highly privileged and highly paid individuals who work for them must develop greater vision in formulating and implementing development strategies. The capacity for complex theorizing on global, regional, and sectoral issues must be converted into greater understanding of the realities of development at the level of nations and individuals.

With regard to the Fund, many in the Pacific continue to be disappointed that technical assistance previously provided to central banks is being phased out. For many countries that take a prudent approach to managing their balance of payments, the provision of technical personnel has been one of the few contributions the Fund has been able to make. In Papua New Guinea, we have been waiting in vain for some years for the filling of several key positions in our Central Meeting, and thought we had an understanding for the early provision of assistance. We are very disappointed that absolutely nothing has happened in the past year.

Other Fund issues of general concern to the developing world include better surveillance and coordination of the rich countries; more positive approaches to conditionality and cross-conditionality; and increased resource flows to the developing world combined with better access to concessional facilities for the small states. . . .

Let me conclude on an optimistic note. Appropriate policies in the key industrial countries, matched by relevant policy mixes in the developing countries and meaningful levels of assistance from the major international institutions, can see us all move to a higher plane over the next year. Let us all strive for that aim, for the betterment of all mankind.

STATEMENT BY THE GOVERNOR OF THE BANK FOR PAKISTAN

Mian Mohammad Yasin Khan Wattoo

I join my colleagues in congratulating the staff and the management of the Bank and the Fund on presenting encouraging reports of successful operations in a turbulent year.

Last year we experienced a change in the stewardship of both the Bretton Woods institutions. Mr. Conable had, of course, assumed leadership of the World Bank before the Annual Meetings in September 1986, and we had the opportunity of welcoming and congratulating him. We were, however, still troubled with the question of filling the vacuum created by the decision of Mr. de Larosière to retire. I am glad that we were able to entrust the responsibility of guiding the destiny of the Fund at a critical stage in the global financial situation to Mr. Michel Camdessus—a man with a keen insight into

the financial issues of our times and a sympathetic understanding of the problems faced by developing countries. I offer my heartiest congratulations to him and welcome him with sincere assurance of all constructive support.

The performance during the preceding year inspires confidence in the quality of leadership shown by the new team in both the Bank and the Fund. The lucid presentation of global economic issues and the role being played by the Bank and the Fund in meeting these problems outlined in the opening speeches by the President of the Bank and the Managing Director of the Fund provide an excellent starting point for our deliberations. The inaugural address by Mr. Reagan, the President of the United States, was deeply inspiring. His determination to resist protectionism was indeed most encouraging.

It should be a matter of primary concern for all of us that the pace of the world economy has slowed down further. In 1986 the growth rate in the major industrial countries came down to 2.7 percent. In fact, in the final quarter, the rate was only modestly above 2 percent.

It is unfortunate that the leading industrial nations of the world have so far not been able to coordinate their efforts toward generating a growth momentum commensurate with the potential of their economies. Not all nations have participated in the efforts to sustain recovery. The world economic climate was particularly favorable for such an effort in 1986 and even in the early part of 1987. The terms of trade moved substantially in favor of the developed industrial countries, giving them a massive transfer of resources at the cost of poverty-stricken nations in the world. With supporting policies in industrial countries, this major reverse transfer of resources should have strengthened the global recovery. The progress of the world economy in the fight against inflation also offers considerable scope for accelerating the pace of development with stability. The persistent high rate of unemployment and idle capacity in at least some of the powerful economies of the world creates a moral obligation on us to resist the risk of a further slowdown in economic activity.

The imperative need is to ensure greater international coordination of economic policies. We can all benefit from an intensified awareness in the developed industrial nations of the impact of their economic policies, not only on world economic trends but particularly on the adjustment efforts of the developing countries. Political will is essential to reduce fiscal and balance of payments deficits, thus enhancing the prospects of sustained growth in the world economy and expansion of world trade unhindered by protectionist pressures. Countries with persistent surpluses have a greater obligation to play a more positive role. They need to initiate structural shifts not only in the pattern of domestic demand but also in expanding the transfer of resources to the developing countries.

It appears that the entire burden of adjustment is being placed on the exchange rate mechanism. This has given rise to increasing volatility in

exchange markets, with adverse consequences for the development of world trade in a liberal framework. The journey from the Plaza accord to the Louvre accord signifies a major shift from an excessive reliance on exchange rates as the only adjustment mechanism. I hope that with the passage of time there will be a greater appreciation of the full implications of this important accord in the essential area of international policy coordination; and also that the necessary political will would be forthcoming to back the accord fully as a comprehensive practical policy. The measures adopted by European finance ministers in mid-September to strengthen their cooperation under the European Monetary System signify progress in the same direction.

The work done by the Fund staff in developing the use of key indicators of economic performance and policies is expected to play an important role in strengthening such policy coordination, while making Fund surveillance effective. I hope we will be able to effectively combine a flexible exchange rate system with policy cooperation, imparting stability and steady growth.

For the future, the *World Development Report* has projected a high scenario based on growth in industrial economies of more than 4 percent. This offers a realistic target, which can be seriously pursued. Such growth in the world economy is essential to ease the tensions attached to the process of adjustment both in the developed and developing countries.

This would no doubt require a bold collective attempt by the leaders of the world economy. Many nations would need to pursue policies that might be painful and politically unpopular. It is, however, important to express the hope that the major industrial nations would seek to follow policies designed to manage the world economy in a manner that enables it to realize its full potential.

The developing countries have always received advice on carrying out difficult and painful adjustments, however high the cost in terms of strains on fragile political institutions and also in terms of human suffering. The developed countries have been above such constructive advice because they are not formally borrowers from the international institutions. The time has come to realize that the developing countries may not be able to carry out adjustment programs against the background of slow growth in the level of world economic activity and shrinking world trade.

If the present policies continue with the resultant growth rates of 2–2.5 percent, there are serious dangers that the solution to the debt problem will prove elusive and a large number of low-income countries, particularly in Africa, may sink deeper into poverty. Above all, the slowdown in world trade, with growing imbalances, may strengthen the protectionist sentiments.

The volume of world merchandise trade rose by about 3.5 percent in 1986. Trade expansion prospects were consequently limited for a large number of developing countries. At the same time, declines in primary commodity

prices, mainly stemming from weak demand, severely impaired the terms of trade of developing countries. By early 1987, real commodity prices had fallen to a level 25 percent below the previous low point reached in 1982. The more recent trends indicate partial recovery, but do not signify a basic change in the longer-term picture. I am happy to note that the Development Committee has also agreed to stress the importance of raising global economic activity by an improvement in the policies of industrial countries. This would improve the climate for the developing countries.

Developing countries have made remarkable efforts toward formulating and implementing adjustment policies, despite an unfavorable world climate and often without adequate support by way of external resources. The growth rate has improved in a number of countries. Most remarkable has been the re-emergence of moderate growth in Africa during 1985 and 1986, although per capita incomes on average have continued to decline. The successful pursuit of adjustment and development goals by a number of African nations has begun to modify the economic landscape in the region. The encouraging performance in Asia is a source of comfort for the world economy, as it offers the remarkable prospect of half the human race moving away from poverty. Pakistan has made its modest contribution to this great Asian drama by attaining close to 7 percent growth, not only during fiscal 1987 but on average for the past ten years. . . .

The Fund was less active [than the Bank] during the year, as reflected in the amount of fresh purchase of currencies by members. In fact, because of the magnitude of repurchases, outstanding Fund credit to members declined by SDR 3 billion. The number of stand-by and extended arrangements at the end of 1986–87 was lower than in most recent years. This decline in Fund activity in a year when the need for Fund assistance in the developing countries, combined with the desire to institute reasonable adjustment programs, was at a high level requires a deeper analysis. Apart from the self-congratulatory argument that a number of countries have successfully carried out adjustment and no longer require assistance and the argument of despair that some of the countries are in arrears, we should ask ourselves why a number of developing countries have been unable to agree on the arrangements with the Fund. It is possible that some flexibility in approach to accommodate sociopolitical realities, while maintaining smooth adjustment over the medium period, could enable a number of developing countries that wish to pursue corrective policies to use Fund resources and ease their progress.

Last year, when the Fund initiated the structural adjustment facility to recycle the funds originally made available under the Trust Fund, the move was generally welcomed and hopes were raised. However, so far only 15 countries have made use of funds available under this facility. The fact that, despite the concessional terms of the facility, only a small number have availed themselves of it suggests that the conditionality attached to the facility and the comprehensive three-year program required are too restrictive. I am

glad that the Interim Committee has pointed out the need "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." We will watch developments in this area with great interest.

The sharply reduced flow of resources to the developing countries, uncertain export prospects, and the slowdown in economic activity in industrial countries have again brought to the fore the question of a fresh allocation of SDRs. The SDR has not assumed a major role in the international monetary system mainly because only SDR 21.4 billion has been allocated since the inception of the scheme, and no allocation has been made since 1981. The original objective of making the SDR the principal reserve asset remains as elusive as ever. The question of a fresh allocation of the SDR has been engaging the attention of the Executive Board of the Fund. While a majority of Executive Directors have favored a new allocation, sufficient support needed for a decision has not emerged. There is no doubt that the SDR can play an important role in providing unconditional liquidity, which would lead to growth without the negative effect of import compression. What is now required is not further technical analysis of the SDR allocation but sufficient political will among industrial countries to tap this source to make additional liquidity available to developing countries. Once the decision to make a fresh allocation of SDRs is taken, a suitable mechanism can be devised to improve the distribution of SDRs, keeping in view the needs of member countries for additional liquidity.

The world monetary and fiscal system based on the Bank and the Fund faces a set of new challenges today. The system has served us well because of its capability to reform itself and face new situations. My remarks are intended to keep this process alive. I am confident that we can evolve an approach designed to maintain stable growth with full and active participation of the developing countries.

Statement by the Governor of the Fund and the Bank for Guyana

Carl Greenidge

It is my privilege to deliver the statement on behalf of Guyana and the Commonwealth Caribbean members of the Fund. May I take this opportunity also to congratulate Mr. Camdessus on his appointment to the post of Managing Director of the Fund. All the members of the Caribbean Group wish you a successful tenure. We are all aware, of course, that in your success lie the hopes of all of us as members of this organization.

Global Economic and Financial Management

At the level of nation states and national economies, certain principles, now widely accepted, have begun to guide approaches to many fundamental problems, such as indebtedness and poverty. Among the most important of such principles is that of shared responsibility and equity. Unhappily, no similar principles inform international practice. There is, no doubt, widespread recognition of the phenomenon of the interdependence of all elements of the global economy. The recognition is, however, not translated into balanced or symmetrical international economic management. This lacuna is reflected in the contradictions evident in the world economy today and leads to rates of growth and paths of adjustment that are less smooth and less rapid than would otherwise be realizable.

Thus, today we are faced with a global economy characterized by:

— trade liberalization in some countries alongside growing protectionism in critical industrial countries;

— efforts to reverse balance of payments deficits alongside inadequate arrangements for the productive or functional use of surpluses; and

— noncomplementary monetary and financial policies among the industrial countries.

Together, these policies have resulted in:

— widespread financial and monetary instability;

— a third successive year of declining growth among the industrial countries as a whole; and

— a weak transfer of growth to the poorer countries.

In other words, the intention of improving global economic performance by means of extensive structural adjustment and harmonious coordinated economic policies still remains to be realized. There are signs of recognition by the industrial countries of this dichotomy and we are heartened by the recent commitment of these countries to policy coordination and cooperation embodied in the Louvre accord and the conclusions of the Venice summit. We trust that this commitment will soon be reflected in practical terms in, for example, realistic exchange rate policies, complemented by the commitment to an open trading system, and policies of the surplus countries consistent with the adjustment efforts of the deficit economies.

Debt

Nowhere is the need for symmetry in policies more evident than in the case of debt. Nowhere is the asymmetrical impact of international economic policies more palpably inequitable than in the case of debt. In addressing this issue, there has so far been a tendency to focus almost exclusively on those

cases or categories that have the most dramatic impact on the international financial system. Consequently, the coverage of countries has been inadequate, as has been the coverage of financing. Thus, the Baker plan dealt only with the largest (in absolute terms) debtors and contained provisions that beneficiaries undertake structural adjustment, while no corresponding obligations were extracted from lenders. Generally speaking, the consequences of what we here term policy asymmetry have been:

— commercial bank contraction of net flows to developing countries with no commitment to reversing this trend at a time when the obverse is needed;

— debtors' commitment to adjustment and repayment of debt;

— the abandonment of multilateral development bank debtors by the multilateral development banks on grounds that they cannot reschedule;

— noncompulsory surveillance of developed country policies, giving rise to disharmonious policies by the major economies at a time when coordination is needed to overcome recession.

Thus, between debtor and debtor, creditor and debtor, and creditor and creditor, different and unsystematic policy prescriptions are now commonplace.

For this reason, we should like to recommend to the members of the World Bank and the Fund the initiative on debt recently formulated by the Caribbean Community and welcomed by the Commonwealth Ministers of Finance. The specifics of this initiative were outlined to this gathering by the Minister of Finance and Prime Minister of Jamaica. Let it suffice for me to say, therefore, that this initiative is intended to treat the question of indebtedness in a comprehensive sense, starting with the identification, in terms of objective economic criteria, of all the debt-distressed countries. The common and specific responsibilities and options open to creditors and debtors are identified in the context of global needs.

For these reasons, although we endorse the proposal emanating from the Governor for the United Kingdom, Mr. Nigel Lawson, and the action already taken by Canada, for example, we insist on the need for symmetry and comprehensive treatment of the issue. As we search for such a workable solution to this crisis, let us not lose sight of the need for additionality of resources to the low- and middle-income countries. A solution needs to involve the timely provision of resources and in the context of agreed structural adjustment programs. This could have a catalytic effect on productive capacity, thus stimulating exports, generating employment opportunities, and returning these countries to a state of creditworthiness.

The Role of the Fund

It is no secret that growing concern about the role of the Fund in the context of the evolving global crises is giving rise to serious reviews of this institution.

The Fund commands a somewhat unique position with respect to the international financial system. It commands this position also because of the sensitive and pivotal levers that are at its disposal. In this regard, we welcome the new perspectives offered on the purposes and role of the Fund in the Group of Twenty-Four report, "The Role of the IMF in Adjustment and Growth."

The Fund's traditional facilities, namely, the stand-by arrangement, the extended Fund facility (EFF), and the compensatory financing facility (CFF), together with the recent structural adjustment facility (SAF), which is open to eligible countries on softer repayment terms and with a more medium-term focus for adjustment, provide avenues of financing for countries in difficulty. It is therefore essential that access limits to these facilities are not reduced. For this reason, we were heartened to learn that the Interim Committee endorsed the proposal to continue into 1988 the enlarged access to the Fund's resources. We wholeheartedly agree with the Managing Director who, in summarizing the deliberations on this subject, expressed the view that the maintenance of the access limits would signal that the Fund would continue its role in promoting a cooperative solution to the debt problem. A reduction in access would indeed send the wrong signal to international markets.

The Ninth General Review of Quotas should be approached bearing in mind the need for the Fund to have readily available resources with which to lubricate an expanding world economy. Reliance on borrowed resources should be kept to a minimum in order to avoid the costs that have to be borne by the countries that have to resort to Fund financing.

The industrial countries have already agreed at Venice to a "significant" increase in the SAF. The Managing Director of the Fund has called for a tripling of resources to be made available to the SAF. The additional SDR 6 billion are to be contributed by a range of donors, particularly surplus countries such as Japan and the Federal Republic of Germany. This proposal is most welcome and we support the early formulation of, and agreement on, the modalities of this increase. The need for this action is made especially urgent by the fact that these resources will allow that facility to be substituted for stand-by arrangements in many low-income developing countries. We regret that at the recently concluded meeting of the Interim Committee, no consensus could be reached on either the size or the modalities of operation of the facility.

The Fund must remain cognizant of its surveillance role in relation to both major and minor countries as is identified in its charter. The Fund appears to be powerless to obtain appropriate policy responses from the major industrial countries which are not currently using its resources. The time is opportune, however, for the Fund to exercise a harmonious influence on the policies of the industrial countries.

Another controversial area or issue of concern pertains to the impact of loan conditionality in relation to the use of Fund resources. There is a widespread

view, most recently voiced by the Commonwealth Finance Ministers, for example, that the effectiveness and appropriateness of conditionality need to be reviewed. In this context, the time permitted for adjustment, the allowances made for contingencies, the flexibility employed with respect to the range of policy options or instruments, and the impact of demand-management measures on country growth all need to be carefully assessed in the light of the experience over the last ten years.

We welcome the signal contained in the Managing Director's address at these Annual Meetings to the effect that the Fund would be prepared to conduct a comprehensive review of the use and efficacy of conditionality. In this task, consideration should be given to more extensive use of the "contingent conditionality" so innovatively designed for the Mexican case in 1986. This approach commends itself most strongly when one bears in mind the inadequacy of the analytical tools and predictive devices currently employed by all practitioners in this area.

SDRs and the Compensatory Financing Facility

The question of an allocation of SDRs for the next basic period remains an unresolved item on the agenda of the Interim Committee. Despite the evidence submitted by the staff of the need to supplement global liquidity through the provision of unconditional reserves, a few major countries remain to be convinced on the subject. The Group of Twenty-Four in its communiqué has again requested a substantial new SDR allocation, the magnitude of which is to be consistent with the need to keep the growth of international reserves in line with the projected growth of imports.

I should also like to emphasize the need to ensure the integrity of the Fund's compensatory financing facility as a source of finance for temporary export shortfalls; in particular, more effective and greater access under the facility, and the desirability of providing CFF drawings on concessional terms to low-income countries.

Conclusion

The Governments of the Commonwealth Caribbean countries are of the view that these are the most important issues facing the Fund and its members today. The proposals which we have outlined or embraced in this statement are intended to strengthen the process, as well as the role of the Fund in global adjustment and growth. This is imperative if the full potential of the world's current productive capacity and organizational arrangements is to be realized.

We therefore recommend these initiatives to you.

Statement by the Governor of the Fund and the Bank for Romania

Alecsandru Babe

It is a particular pleasure for me to address to you, and to all participants at this year's Meetings of the Bank and the Fund, my cordial greetings and my best wishes for the success of these important international organizations. At the same time, I assure you of our resolve to join the efforts being made to solve the complex and at times—let us be frank—contradictory problems that confront economic, financial, and monetary activities throughout the world.

The Annual Meetings give me the opportunity and the honor of presenting, on behalf of the President of Romania, His Excellency Nicolae Ceausescu, some considerations and proposals with respect to some of the major problems of international economic and financial life.

These Meetings are taking place at a time when the world economic situation continues to worsen, affecting all countries, particularly the developing countries. Recently, protectionism and discriminatory practices have intensified, particularly with respect to the export of manufactured goods by the developing countries, while at the same time the prices of raw materials have declined.

The signs of recession in the world economy have been felt with varying intensity, owing to deep-seated contradictions brought about by the anachronism of the existing economic order and by the reappearance of old economic dominations and subordinations in new forms.

The overwhelming external debt burden of the developing countries remains a major problem in the world today. As a result of the present recession, the level of external debt has only deepened the crisis, heightened economic instability, and limited the scope for economic development and progress in the developing countries. This is the underlying reason for the widening gap between developed and developing countries, as well as for other adverse effects on mankind.

Particularly acute is the problem of interest rates, which were unusually high at the beginning of the 1980s. Although they have declined in nominal terms, real interest rates are still excessively high in relation to the borrowing countries' diminished debt repayment capacity.

Deeply aware of the need for a new approach to all international political and economic problems, our country is in favor of finding new and radical solutions that are in keeping with the seriousness of the present situation and with the responsibility of all people and all countries to create a better and a decent world. Convinced of the need to achieve these goals, our President has over the years launched many efforts to help eliminate underdevelopment and establish a new international economic order.

In line with its concern, Romania placed an item called "The Foreign Debt Crisis and Development" on the agenda of the Forty-Second General Assembly of the United Nations. At the same time, it proposed that the world organization call upon all developed creditor countries, international banks, and lending agencies, including the IMF and the World Bank, to declare a moratorium for at least five years on repayments on all loans to developing countries. Romania also proposed that the UN General Assembly call upon all countries to halt protectionism, discrimination, and quota setting in trade and to adhere strictly to the GATT's most-favored-nation clause.

The Romanian position presented to the Bank and the Fund at these Annual Meetings is shaped by these same concerns. Our goal is to improve the effectiveness of the Bank and the Fund, and we call on them to make fundamental changes in their policies and practices. The Bank and the Fund should develop the capacity to play a catalytic role in the complex process of preparing for and promoting a new, equitable, and democratic financial and exchange system that can genuinely support the developing countries' efforts to achieve progress. Obviously, this calls for far-reaching measures.

The main features of the considerations and proposals of the President of Romania, Nicolae Ceausescu, which deal with the global solution of problems relating to debt and very high interest rates and which have been distributed as official documents, are as follows:

—For credits already extended and committed by the IMF and the IBRD, the annual interest rate should be limited to a maximum of 5 percent.

—For new credits to be extended by the IMF and the IBRD, the annual interest rate should be 4 percent. Such a level could ensure that the return on each project financed in this way would generate enough resources to service principal and interest payments as well as some net income for the borrowing country.

Moreover, a separate solution governing trade relations should be found, based on agreements between the parties.

—The IBRD should give up the arbitrary and unjust practice of unfairly increasing foreign debt through the so-called exchange adjustment. Credits extended by the IBRD should be repaid at the same value and in the same currency structure initially agreed upon, without supplementary amounts being required.

—The IMF and the IBRD should adopt a resolution with respect to the extension of all credit repayments by at least ten years, so that through the alleviation of the external debt burden the necessary financial resources for the progress of the developing countries should be ensured.

—For the funds already borrowed by the IMF and the IBRD to create credit resources, a decision should be adopted in order to limit the interest rate to

5 percent annually. For future borrowings, the IMF and the IBRD should pay an interest rate not higher than 4 percent.

At the same time, the IMF and the IBRD should undertake measures to reduce their own expenditures, rationalize their actions, and obtain profits of a maximum of 0.5 percent.

—The IMF and the IBRD should democratize their whole activity, so that their developing member countries should play a greater role in the taking of measures and decision making.

The proposals and the considerations of Romania, and of the President of our country, fully illustrate its spirit of commitment to international efforts aimed at solving the problems of the present world recession.

We are living at a time when profound changes are needed, and for this reason we must adopt novel approaches in order to solve these problems once and for all. Considering our present and future aims, such changes are actually in the interest not only of the developing countries but of the developed countries also.

We feel that in this way the IMF and the IBRD could accomplish their original task better and become models of policy promotion for the economic and social progress of their member countries and play an active role in maintaining the stability of the world economy and of the financial and exchange system. All these countries will appreciate what we began and what we achieved, and their appreciation will be based on an improvement in the world economy as a whole, as well as an improvement in individual countries, particularly developing countries.

I am confident that we shall be able to understand what we have to do now and in the future and that we shall be able to summon the strength to overcome the obstacles to radical changes in existing ideas and practices.

Statement by the Governor of the Bank for Solomon Islands

George Kejoa

It gives me great pleasure to speak not only on behalf of Solomon Islands but also on behalf of three other small-island developing member countries of our constituency, Kiribati, Vanuatu, and Western Samoa.

We face special problems in the management of our economies. Terms of trade continue to decline for those countries dependent on sales of a few primary commodities. The International Monetary Fund pointed out in its recent report on exchange and trade restrictions that, whereas restrictive

practices have generally been reduced during the past year in the developing countries, they have actually been on the increase in the industrial countries. This aggravates the already serious plight of our fragile, commodity-exporting economies. We acknowledge our own responsibility to follow sound economic and financial policies. But adoption by the other countries of policies harmful to our interests places an excessive load on our ability to adjust to adverse external circumstances. Even as we adopt adjustment measures and face the ensuing political and social pressures, any benefits that might be expected are reduced or nullified by factors beyond our control.

A sustained improvement in world economic growth will not be possible without greater financial flows from the developed to the developing countries. Negative net transfers were recorded for 1985 and 1986, and the United Nations forecasts a continuation of these trends during the next few years. This runs squarely against the spirit of cooperation envisaged at Bretton Woods; in addition, this trend does not reflect the aims of the Development Committee, whose full title, let us recall, is the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries.

We welcome the Lawson initiative, which envisages transforming loans into outright grants, rescheduling to allow much longer repayment and grace periods, and renegotiating interest rates. These measures will need to be supplemented by increased flows of official aid, as well as by the substantial increase being sought by the Managing Director for the Fund's structural adjustment facility. Amid the flood of exhortations to us to effect structural adjustment, it seems absurd that major donors should be holding back from supporting the structural adjustment facility, one of the most useful ideas to emerge in recent years and the one most likely to be of use to the smallest member countries. We are pleased, therefore, to see signs yesterday in Secretary Baker's speech that the United States is still looking to play a positive role in both the Bank and the Fund. . . .

With regard to the Fund, a substantial increase in quotas is long overdue. The Ninth General Review should be delayed on no account. It should take special account of the needs of small member contries, whose economies are extremely open, vulnerable to external shocks, and handicapped by the very small access to Fund resources resulting from the current quota and access formulas.

At these meetings last year, we drew attention to the cutting back of technical assistance provided by the Fund. For many of us, the provision of such assistance is the major benefit derived from membership. Technical assistance accounts for a only a very small percentage of total Fund expenditure; yet it is of vital importance to countries that have not yet had time to educate and train specialists. We urge the Fund to maintain existing levels of technical assistance. At the same time, we record our appreciation of the

training facilities made available by the Bank and the Fund in economic and financial management. Such training benefits us greatly, and it is important that our real access to it be maintained.

Finally, I extend to the Chairman our appreciation for his conduct of these meetings and to Mr. Camdessus we offer our congratulations on his appointment as Managing Director and our hopes that his term of office will be an active and fruitful one for all of us.

Statement by the Governor of the Bank for Nepal

Bharat Bahadur Pradhan

I am happy to be here, in the midst of distinguished colleagues and friends, to present the views of His Majesty's Government on the international economic issues and the national economic situation.

Before presenting our views on these issues, we would like to express our appreciation to Mr. Ronald Reagan, President of the United States, for his inspiring inaugural address and for his support for the Bank and the Fund. I would like to join others in extending our warm welcome to the new Managing Director of the Fund, Mr. Michel Camdessus. We wish him every success in his new and challenging job.

Since our last meeting, the performance of the world economy has been far from satisfactory. It is indeed disconcerting to note that the slowdown in economic activities noted during the fall of last year has continued well into the current year. Despite positive developments, such as a decline in the petroleum prices and an easing up in interest rates, the world economy could not register a much needed faster rate of economic growth. Protectionist policies, along with large imbalances in trade and budgetary situations of industrial countries, have more than offset the benefits of these positive developments.

The economic performance of both industrial and developing countries in this period weakened more than initially anticipated. Although industrial countries have succeeded in reducing the rate of inflation, the persistent imbalances in the trade and budgetary situations more than offset the benefits. Instead, it has led to a situation of higher unemployment and lower economic growth in these countries.

The protectionist policies adopted by industrial countries have caused a sharp decline in the export price of developing countries, thereby deteriorating sharply their terms of trade. The situation was further worsened due to a sharp decline in resource availability and the transfer of resources to these countries.

This has not only hindered the process of development in developing countries but also aggravated their debt problem. Because these countries have limited access to capital markets, financing from the bilateral and multilateral agencies is crucial in sustaining their efforts toward growth and development. In this context, the role played by the Bank and the Fund assumes vital significance. Moreover, the lending of the Bank and the Fund has a catalytic role in inspiring confidence among other lenders. . . .

At a time of increasing resource requirements by developing countries in their effort to develop, the decline in the flow of official development assistance from bilateral and multilateral resources in real terms in 1986 concerns us very much. The decline in the flow of resources from multilateral sources is significant in real terms, while the flow from bilateral sources has remained virtually stagnant since 1985. We would, therefore, like to urge donors to increase the flow of resources to meet the widening gap in the resource availability in developing countries. It is all the more necessary due to economic adjustment and stabilization programs that have been initiated by several developing countries in recent years.

We are happy to note that the Development Committee addressed the important issue of revitalizing growth in the developing countries and emphasized the strong role to be played by the Bank and the Fund in expanding flows of finance to the developing countries by supporting a substantial increase in the Bank's capital base. We also welcome the strong endorsement made by the Interim Committee on the initiatives of the Fund to increase the lending program under its structural adjustment facility (SAF). . . .

We appreciate the establishment of the structural adjustment facility by the Fund. It would supplement the efforts of the Bank in supporting the adjustment programs of the developing countries. In this context, we welcome the support expressed by the industrial countries to the proposal of the Managing Director of the Fund for a substantial increase in the size of the SAF. We hope negotiations regarding the increase would be completed by the end of 1987 and the conditionalities attached to its use would be less stringent, so that a large number of needy low-income countries will be in a position to benefit from the facility.

In view of the uncertainties surrounding the world economy and the worsening of payments difficulties, there is a need for the continuation of the enlarged access policy and an increase in the present access limits. Because of low commodity prices, the amount under the compensatory financing facility (CFF) should be approved with less conditionality, especially in the upper tranche.

We believe that there is an urgent need for a substantial increase in the quotas under the Ninth General Review. An adequate increase in quotas would enable the Fund to deal more effectively with any disruptive shocks in the world economy arising from persistent debt problems. In this regard, we

support the view of the Group of Twenty-Four that the quotas be fixed on the basis of particular circumstances and financing needs, including some form of poverty index for the low-income countries.

With regard to SDR allocations, a substantial allocation of SDRs would promote economic recovery and would not be inflationary. Such allocations would help meet long-term global need for reserves, thereby supplementing international liquidity. We share the views put forward by other developing countries that the unconditional character of SDR allocations should be maintained and that a link should be established between SDR allocation and development finance.

I would now like to review in brief the macroeconomic management and development performance of Nepal in the fiscal year 1986/87. Following the adoption of the economic adjustment program in 1986, the economy witnessed positive developments in various sectors in fiscal 1986/87. However, in spite of a significant growth in the industrial sector, a drought-induced decline in agricultural production has slowed down GDP growth in 1986/87. Even though investment in irrigation has expanded rapidly over the years, Nepal's agriculture is still greatly influenced by weather conditions.

Despite a large shortfall in foodgrain production, the measures undertaken to improve supply management helped to contain inflation. The average inflation rate in 1986 came down to 13.3 percent from 15.9 percent in 1985/86. On the domestic resource mobilization front, the Government has had great success in 1986/87. Revenue grew by 29 percent, and in terms of GDP the share went up from 9.3 percent in 1985/86 to 10.7 percent in 1986/87. Growth in regular expenditure was reduced to 14 percent in 1986/87 from 23 percent in the previous year. Similarly, development expenditure in the year increased by 22 percent, compared with 13 percent in 1985/86. The performance in the monetary sector had also been satisfactory. In 1986/87, the money supply grew by 16.9 percent, compared with 28.3 percent in the previous year. The success in containing money supply growth was largely due to tight credit policy. Growth in domestic credit was 14 percent in 1986/87, compared with 29 percent in 1985/86.

On the external front, the current account deficit widened further, mainly because exports remained stagnant and imports increased considerably. The sluggish performance in the export sector was partly due to poor performance in the agriculture sector. However, increased earnings from tourism and foreign aid disbursements enabled the country to maintain a favorable position in the balance of payments.

In order to attain sustained economic growth, we implemented a structural adjustment program in 1985/86. To meet the resource requirements in this process, we have recently entered into an agreement with the World Bank for a structural adjustment loan (SAL). Negotiations with the Fund for use of the

structural adjustment facility have been completed. These resources will provide us much needed support in our endeavor to achieve sustained growth in the economy.

I would like to take this opportunity to express sincere appreciation to the staff and management of the Bank and the Fund for their efforts in helping Nepal in its process of adjustment and growth, which as urged by His Majesty, King Birendra Bir Bikram Shah Dev, is intended to provide his people with the basic minimum needs of food, clothes, shelter, education, health, and security by the year 2000.

We have already prepared an action plan for this purpose. We are very much aware that our ability to successfully implement the basic needs program depends on increasing the level of investments in various sectors and subsectors and on improving investment efficiency. For this, we are making concerted efforts toward mobilizing larger domestic resources and adopting a system of program budgeting and monitoring. However, the efforts made in the domestic front will not be sufficient in our endeavor. Therefore, we need more generous cooperation from the donors and multilateral agencies in the years ahead. . . .

Finally, I would like to express our appreciation to the people and the Government of the United States for the warm hospitality extended to us. May I also express our grateful thanks to the management and staff of the Bank and the Fund for the excellent arrangements made for the meeting.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND AND THE GOVERNOR OF THE BANK FOR THE PHILIPPINES

Vicente R. Jayme

I wish to join the other speakers before me in congratulating the new Managing Director of the International Monetary Fund, Michel Camdessus, on the assumption of his position of great responsibility. I wish him all success.

I am struck by the unanimity in the expressions of urgent concern by scores of Governors from developing countries as we discuss the international debt crisis and its management. This urgent concern is evoked by years of unmitigated adjustment, halfheartedly supported—if at all—by the institutions and agencies with whom coresponsibility is supposed to be shared, and by a deepening sense of frustration over the reverse flow of resources from capital-starved developing countries to industrial countries and multilateral institutions.

If, except for the numbers, not a few of the statements made in these Meetings sound like last year's speeches, it is because last year's exigencies

remain unrealized—indeed, they have since been intensified in substance and urgency. World output growth, a sluggish 3.2 percent in 1986, is expected to drop further to 2.8 percent in 1987. Neither the U.S. economic engine, itself held back by persistent record-setting fiscal deficits, nor those of Japan and the Federal Republic of Germany seem to be in a suitable position to accelerate activity through the rest of 1987. Already the depreciating dollar has added 12 percentage points to the external debt/exports ratios of the more heavily indebted countries. Interest rates, never really fully down in real terms, have begun to rise again, threatening, with each percentage increase, to impose an additional $3 billion to the net negative transfers of these economies on account of debt owed to commercial banks alone. The perverse flow of resources from the developing to the developed countries is now estimated for 1986 at $29 billion. Interpreted in terms of import capability and growth potential, these developments augur only deterioration or, at best, stagnation for these countries in 1987.

In the meantime, whatever strengthened export capabilities our countries have succeeded in developing have been permitted limited impact on the markets. On one hand, active subsidization of high-cost production in agriculture among the major participants, as in sugar and vegetable oils, continues to depress prices for these commodities. On the other hand, protectionist barriers prevent the full play of market forces in manufactured goods.

The financing which is supposed to underpin the current orthodoxy of adjustment with growth has not meaningfully materialized. Concessional flows declined in real terms in 1986. Paris Club creditors have not—except in very few cases—heeded calls for some debt relief, even for the most severely distressed debtor countries. Two years after Secretary Baker's initiative was first proposed, World Bank lending appears, more than ever in all its 40 years, constrained by capital inadequacy. The Fund, for its part, remains unable and unwilling to allocate SDRs anew in spite of strong recommendations to do so from its own staff and a majority of the Board. In 1986, the commercial banks lent $3.1 billion to the 15 heavily indebted developing countries cited in the Baker initiative, but received about $6.6 billion from them over the same time period—a net transfer to them of $3.5 billion. Moreover, partly by withdrawing from net lending as well as charging market interest rates on loans rated by the market at less than face value, the major banks have since reduced their exposure to these countries from 200 percent of their capital to 120 percent today.

This is the global environment with which the Philippines, like other developing countries, has to contend in its struggle for recovery and growth in a democratic context. It is difficult to justify that at the very time when the Philippines must rebuild an economy devastated by the depredations of a corrupt dictator, and with our high levels of poverty and unemployment, we had to transfer to our official and private creditors in the past two years $3 billion more than we received. It has made more difficult the task of

restructuring our economy and implementing the growth-oriented reforms so necessary for political and economic viability. The recent traumatic events in my country—a general transport strike, a coup attempt, and stepped-up insurgency attacks—demonstrate the urgent need to put great priority on programs that will meet the needs of our people. We must seek more effective ways of fulfilling international obligations without neglecting our people's needs. Because the National Government had to make a net transfer in 1987 of $700 million to its creditors, we have had to make do with less resources. This has left an overburdened populace more vulnerable to the importuning of extremist elements from both the left and the right. The resulting political and social instability has further impeded economic recovery.

When the Aquino Government came to power, President Aquino stressed that a real growth rate of 6½ percent annually for the next five years would be required in order for Filipinos merely to regain by 1991 real per capita income levels of 1981. The Philippine recovery has since begun, but at a rate which is as yet insufficient to meet even this modest target.

The Baker initiative is stalled. If the debtor countries that took the Baker initiative to heart and built their hopes on it now exhibit evidence of adjustment fatigue, it is because of their perception that the international response from commercial banks and the major creditor countries has been, at best, fainthearted.

Let me stress that Secretary Baker's insight—if not his initiative—remains relevant to this day. The two necessary conditions for recovery and sustainable economic growth are domestic structural reforms and external cooperation. The former is needed to ensure that the country's resources are used efficiently. The latter is needed to ensure that the appropriate amount of resources is available. There is no lack of ideas grounded in this principle among both official and private sectors. What has been lacking, rather, is consensus on several corollaries to this principle, which are needed in the current situation.

First, and perhaps foremost, is the recognition that the burden of adjustment—to date borne largely by the more heavily indebted countries—must be shared.

Second, adequate safeguards must be established that would insulate debtor economies as much from the effects of unfavorable movements in interest rates and commodity prices as from trade protectionism. In this connection, interest rate caps and automatic rescheduling provisions that would offset negative net transfers deserve serious consideration. Moreover, the Fund compensatory financing facility might be modified to cover interest rate changes as well.

Third, balance must be restored between official and private finance. It is clear that prompt action is needed to authorize a sizable general increase in the capital of the World Bank, with a stipulation for a higher paid-in portion and,

thereby, some concessionality in lending terms. The Fund quota review must be completed and the structural adjustment facility augmented.

Fourth, new methods to reduce the debt burden should be included as realistic options in all rescheduling negotiations—methods such as interest capitalization, export-earnings-linked payments, debt conversion, and even debt forgiveness. This is a view that has been put forth by several ministers and which we endorse.

Fifth, the possibility of establishing new facilities under the World Bank or the Fund to facilitate the conversion of debt to new financial instruments which would reduce the debt burden should be urgently examined. Meanwhile, to address the net transfer problem as quickly as possible, more emphasis should be placed on policy-based and structural adjustment loans than has heretofore been done.

Sixth, and finally, the regulatory and tax authorities of creditor countries should adopt policies to accommodate reasonable measures designed to alleviate inordinate burdens associated with debt and debt service. . . .

I would conclude by quoting some words from a report by the Pontifical Commission, *An Ethical Approach to the International Debt Question:* "Debt servicing cannot be met at the price of asphyxiation of a country's economy, and no government can morally demand of its people privations incompatible with human dignity."

After four years of painful adjustment in the Philippines and a half generation of lost economic development, the social substructure of my country, as with others similarly burdened, cannot endure future years of further deterioration in standards of living. One way or another, a more lasting solution must emerge. The challenge hurled to us is that of ensuring through cooperative action that this solution is an orderly one and reflects practical wisdom and equity long denied. Though the hour is late, it remains my hope that this is still possible.

STATEMENT BY THE GOVERNOR OF THE BANK FOR AFGHANISTAN

Mohamad Kabir

Mr. Chairman, please accept my sincere congratulations on your election as Chairman of these Annual Meetings.

I am indeed very delighted to represent the Democratic Republic of Afghanistan at these Annual Meetings of the Boards of Governors of the Bank and the Fund.

First of all, I would like to extend my appreciation and thanks to the management of the Bank and the Fund for the excellent arrangements made for the efficient conduct of these Meetings.

The international economic situation continued to be grim during the last year. The deceleration in international economic activities and growth; the continued, and recently intensified, protectionist policies of the Western industrial countries; and the inequitable trade relations resulting from these policies further deteriorated the terms of trade of the developing countries. Consequently, the export earnings of the developing countries have seriously declined, while their debt service payments on foreign loans have substantially increased.

Furthermore, lending to developing countries has fallen and their balance of payments deficits have greatly increased. As the figures show, the debt burden of the developing countries has reached the staggering level of more than $1,000 billion, and the burden of servicing the debt is as high as more than $110 billion per annum, imposing severe difficulties on developing countries to meet their debt service obligations.

The decline of multilateral concessional flows for development, the insecurity and insufficiency of food supplies, and the harshening of the conditionality of financial and technical assistance have all seriously undermined the efforts of the developing countries, particularly the least-developed ones, to achieve growth in their economies and to ensure the promotion of social and economic development. It is very discomfiting, indeed, to realize that, for the first time in many decades, the per capita gross domestic product of many developing countries has declined.

Apparently, most of the current economic problems facing developing countries result from the financial constraints of the present international economic and financial order. There is a vital need to restructure the monetary and financial system so as to enable the developing countries to adjust their balance of payments deficits without resorting to measures that are immensely harmful to their growth. Furthermore, the present insufficient representation of developing countries in the decision-making processes of international financial institutions should be rectified.

Due to the impact of dismal international economic developments and conditions, the economic state of low-income, least-developed countries has become even more distressing.

The Democratic Republic of Afghanistan, as a free, independent, nonaligned, and peace-loving country, has achieved great and astounding successes in the social, economic, and political realms since its inception, in spite of conspiracies, sabotage, economic restrictions, and depredations against our people, as well as the involvement of our country in an undeclared war imposed from abroad. However, the positive and constructive changes that have taken place in the recent past have been especially significant.

The most remarkable achievement in the social and political life of our society was the declaration of the national reconciliation policy by the leadership of the country at the beginning of 1987. Despite the obstacles created by some neighboring countries, the number of repatriates to Afghanistan is increasing day by day. The needed facilities and assistance are being provided to them by the Government. The policy of national reconciliation, extended further recently, is now successfully moving forward, paving the way for the cessation of bloodshed, ensuring peace and tranquility in Afghanistan, and making possible a more rapid pace of economic development of the country.

The process of the first, genuine democratic elections to local organizations of administrative power has acquired new dynamism with the participation of representatives of different strata of the people, including the opposition and those who have laid down their arms.

As a great step forward toward the realization of a humanistic policy of national reconciliation, the draft of the new constitution has been completed and published in the media to seek public opinion and criticism. The main objectives of the new draft constitution are the consolidation of independence, national sovereignty, and defense of the territorial integrity of the country, as well as the strengthening of reconciliation and national unity, keeping in view the objective realities, traditions, and customs of the people. The new constitution will ensure the democratic and equal rights of all the people in Afghanistan, without any discrimination and in accordance with the accepted and credible international rules and agreements, including the Declaration of Human Rights.

The recently drafted constitution, as well as the newly promulgated Law of the Political Parties, allows the activities of political parties in the framework of a multiparty system, which stresses the equality of political parties.

Now, we have reached the second year of implementing the first long-term socioeconomic program after the April Revolution of 1978, which ensures growth in all spheres of the national economy, including the private sector, and the elevation of the material and cultural standard of all the citizens, especially the working people. According to this plan, the gross national product of the country will increase by 25 percent by the end of the plan period.

The results of the first year of implementation of the main aspects of the socioeconomic development plan of the country for 1986–91 show that considerable growth has been achieved in the national economy. The gross national product of the country grew 5.2 percent during the previous year; the gross domestic product increased by 3.3 percent; and the national income indicated a growth of 3.5 percent.

Of course, the extensive impartial economic assistance given by friendly countries has greatly contributed to the implementation of various development projects vital for the improvement of the economy.

In the current fiscal year practical steps have been taken in the spheres of education, public health, and construction of residential houses; and other social services aimed at elevating the living standard and culture of the Afghan people are envisaged.

To improve the living conditions of government employees, free distribution of two coupon items, flour or wheat and edible oil, and 50 percent increases in food allowance of workers and civil service personnel were put into effect.

In the current year's state budget, ample funds were allocated and are now being effectively utilized for receiving repatriates and rendering necessary assistance to them.

The Government has all along followed a policy of encouraging private sector investment. In line with this policy, the first nationwide conference of national entrepreneurs and the private sector was held last April under the auspices of the leadership of Afghanistan. In the course of the conference, it was made clear that the Government of the Democratic Republic of Afghanistan had undertaken significant practical measures to create a more favorable climate for secure operation and expansion of the private sector and joint ventures, including foreign investment.

Steps have also been taken to maintain a mutually beneficial relation between the Government and the private sector, and facilities, such as bank credits on easy terms, have been provided for national traders. Further, the Government has guaranteed more aid to private institutions by founding financial, technical, and legal bases for private institutions and factories and by rehabilitating defunct establishments.

Our country is a low-income, landlocked, least-developed country. Development of the national economy, especially the weaker segments of the society, as envisaged in the first five-year socioeconomic plan of our postrevolution era, necessitates external assistance on a large scale. It is deeply regretted that, in spite of our dire need for concessional assistance, the Western countries and also some of the international financial institutions, such as the World Bank, have withdrawn their assistance, going to the extent of even disallowing drawing on loans sanctioned earlier and suspending disbursements for ongoing projects on which substantial progress had been made. Obviously, the decisions in this regard have been taken not on economic, but on political, considerations.

On behalf of the Democratic Republic of Afghanistan, a landlocked and least-developed country, our delegation appeals to these international financial institutions, particularly the World Bank, to take a more reasonable stance toward Afghanistan and to resume their lending activities to our development projects, keeping in view their obligations under the Articles of Agreement, which require them to distribute aid solely on the basis of economic criteria

and the actual developmental needs of developing countries. Moreover, we request that these international financial organizations take into consideration in their decisions the resolutions of the UN General Assembly and UNCTAD, which specifically call upon them to implement concrete measures for solving the problems of the least-developed nations, especially landlocked countries.

To conclude, I wish the Bank and the Fund every success in their development-oriented operations in the years ahead.

Statement by the Treasurer of the Commonwealth of Australia

Paul J. Keating

The world economy has experienced another difficult year, although there have been some positive developments.

There has been welcome, though overdue, progress in reducing the U.S. budget deficit this past year. Japan and the Federal Republic of Germany have taken measures to expand domestic demand in their economies. External imbalances have shown some signs of improvement, and inflation remains subdued. Policy coordination among major industrial countries has been enhanced. Economic growth in the major countries is likely to be somewhat stronger in the short term than was previously thought.

Despite these developments, we still face some major problems. External imbalances among the major countries remain large. It is encouraging that there appears to be broader recognition of the fact that serious internal imbalances are the major source of these divergences in external positions. That recognition must be translated into corrective actions. This is all the more urgent as the strength of protectionist forces appears to be growing, rather than receding. All of this, of course, aggravates the continuing severe economic and financial problems of most developing nations.

The correction of external imbalances will take time and concerted policy action by all nations, particularly by the major industrial countries. The United States, through its large current account deficit, is absorbing much of the savings generated by countries with external surpluses. Continued reduction of the U.S. budget deficit is required to release resources for export growth and import replacement. It is crucial that progress be made in reducing the U.S. trade deficit, without resort to protectionism, and President Reagan's commitment in this regard was most reassuring.

However, actions by the United States alone will not be sufficient to strengthen world economic growth. Japan and the Federal Republic of Germany need to maintain domestic demand growth at a pace which produces

further correction of their external surpluses and to remove measures which unduly encourage savings and distort investment.

In the absence of such policy action, exchange rates and interest rates will have to carry the full burden of adjustment of external imbalances. It is widely agreed that reliance on these latter policy instruments will not only be inadequate to the task but will also involve costs in terms of slower growth, reduced trading opportunities, and higher debt-servicing costs for developing countries.

The need for adjustment is by no means confined to macroeconomic policy. Microeconomic adjustment is equally critical to improved economic efficiency and enhanced growth in output and employment.

The freeing of international trade is the single most effective means of promoting structural change and improving medium-term prospects for growth in both developed and developing countries. Open trade policies are important for all countries, but particularly for indebted developing countries. Stagnating export earnings have contributed heavily to the intensification of debt problems. The Fund staff's latest assessment of the world economic outlook informs us that the greater than expected deterioration in the debt position of non-oil developing countries in recent years is largely explained by poor export prices. A number of factors have contributed to this situation, but it is clear that these countries must be given the opportunity to improve their trade performance if they are to reduce their external debt. In particular, increased market access and the removal of both protection and subsidization of agricultural products would considerably enhance growth prospects. In short, the resolution of the debt problem requires a freer international trading system.

The Uruguay Round offers an opportunity to make major advances in trade liberalization. Yet, over the last six months there has been further movement toward agricultural policies which artificially boost farm production in industrial countries, lower developing country agricultural exports, and depress commodity prices. These developments must be reversed at once. Industrial countries must abide fully by their standstill and rollback commitments and achieve early results in the Uruguay Round, with widespread reform of agricultural policies as a key element.

Of course, the problems of developing countries do not all lie at the door of the industrial countries. Developing countries themselves must implement disciplined, outward-looking economic policies. While the record remains uneven, substantial adjustment has taken place in a number of cases—with encouraging results. Further efforts are required in this direction.

Where these efforts are forthcoming, they should be supported by suitable transfers of resources. We would expect that where developing countries

pursue appropriate policies, the commercial banks would be willing to make additional resources available.

The special problems of debt-distressed countries, particularly in sub-Saharan Africa, have been a particular focus of our Meetings this year. We all wish to see the Bank and the Fund actively engaged in the development of solutions to these problems. Our task is to devise means of doing so which pay proper regard to the respective roles of the two institutions. . . .

The Fund . . . can play an increased role in assisting developing countries, although we would not wish to see the Fund depart too far from its intended primary role. The Fund has continued to be responsive to the changing demands upon its resources, and the Managing Director has put forward an important new initiative for expanding the resources of the structural adjustment facility. While this proposal has been widely welcomed, greater efforts are required to clarify the modalities of its implementation and thereby to facilitate final decisions on national contributions.

Australia, as a potential contributor to the enhancement, will participate in these further efforts. While we have not taken a final position on the matter, one significant advantage that we can see in using the Fund's General Resources Account as the conduit for contributions is that it would enable official reserves to be used for this purpose. Certainly, if the Trust Fund concept were to be used, security and liquidity of contributions would need to be ensured. We also think that account should be taken of the balance of payments positions of potential contributors in the determination of contributions.

Australia acknowledges the need for the Fund's resources to grow with a growing world economy. We support an early and substantial increase in quotas under the Ninth General Review. In the interim, the current access limits should be maintained in 1988. We remain of the view that the case for a new SDR allocation remains to be demonstrated.

A number of proposals for debt relief for the poorest debt-distressed countries are under consideration. Some of these include attractive features, such as conversion of official development assistance loans to grants and increased private direct foreign investment, which we support. In fact, Australia's official development assistance has been provided wholly in grant form for decades. Some other aspects of these proposals, such as interest rate relief on trade-related debt, could also be an appropriate form of bilateral concessional assistance to low-income debtor countries. We do not believe, however, that it would be appropriate for such relief to be extended to other countries.

While the problems of sub-Saharan Africa are acute, we must not lose sight of the pressing development problems in other regions. They must receive a fair share of available resources. I draw particular attention to the problems of the small Pacific island countries. They have special requirements for financial

and technical assistance and we would like to see a more active involvement in the region by the World Bank.

The Bank and the Fund continue to play an important role in the world economy. However, we should not expect too much of them. The vast majority of international financial activity is and should be transacted through nonofficial institutions. Development depends largely on the world economic and trade environment.

I will end by returning to one important theme. We are moving into a time when microeconomic adjustment toward increased market efficiency is receiving ever greater emphasis. It is of the utmost importance that short-sighted protectionist sentiment does not cut across efforts to improve living standards throughout the world. Together we must take early action to liberalize international trade, so that we can deal effectively with the economic and financial problems which beset us.

Statement by the Governor of the Bank for Austria

Ferdinand Lacina

In evaluating the situation of the world economy and its development over the past year, I find little ground for complacency. On the contrary, we are confronted with a number of issues that have presumably become more urgent and more difficult to solve in the recent past.

There are those among us who consider the growth rates in the industrial countries to be quite satisfactory. Nevertheless, these growth rates are not sufficient to reduce the unbearably high levels of unemployment that exist in most European countries. At the same time, the economic situation of many developing countries has deteriorated even further. Though some exporters of manufactured goods have done well, most exporters of commodities have been hit hard by the adverse effects of the weak economic climate in the industrial countries. In many developing countries this has led to a further reduction of already low per capita incomes.

We all realize that the economic performance of the industrial countries is of prime importance to the developing countries. Here, again, the large industrial countries are those whose actions determine the whole picture. What we really need at this critical juncture is a clear signal from the larger industrial countries that they intend to do more about their own adjustment. This implies above all further action on the U.S. fiscal deficit. Also, the Fund's *World Economic Outlook* has shown that further efforts by Japan and Germany to stimulate growth and domestic demand would cost these countries only a small rise in inflation and a slowing down of an already largely completed process of fiscal

consolidation. But at the same time such moves would help reduce the protracted current account imbalances, improve the dismal unemployment situation, increase the export markets for developing and industrial countries alike, and help ward off the rising tide of protectionist pressures worldwide.

Although most policymakers are aware of the current and medium-term problems, there is always the danger of complacent or passive attitudes, notwithstanding the magnitude of the issues at stake. But in an environment of increasingly interdependent economies, only an active approach by all countries can solve these problems. My country, for one, has tried to define its role in the international adjustment process in an active way by decisively addressing the issue of the lingering fiscal imbalance.

In this connection, let me describe recent developments and the present direction of economic policy in Austria. Largely because of an ever-increasing burden of debt and interest payments, the room to maneuver fiscal policy for stimulating domestic demand and improving the structure of the economy has almost disappeared. In order to recoup the lost margin of action, the new Austrian coalition government has introduced a number of deficit-cutting measures which will culminate in the implementation of a budget consolidation package in fiscal year 1987/88. The estimated results of these policy moves predict fiscal year 1986/87 outcomes that are right on track and an impact of the fiscal year 1987/88 package lying well within the targets of the coalition's budget agreement. The Government has thus kept the political initiative, for this determined fiscal policy stance is broadly accepted by the public. In addition, we assume that the positive effects of these policies on business expectations will be further reinforced by the complementary tax reform currently under review.

It is essential to combat all attempts to increase protectionism, not only to avoid a trade war among industrial countries but also to permit the heavily indebted developing countries to earn the necessary foreign exchange to service their debts. Five years ago we were confronted with what in the meantime has been named the debt crisis.

Since then, we have been successful in preventing a collapse of world finances. We have, however, not been successful in finding a viable solution for servicing, let alone repaying, the debts of many heavily indebted countries. We have time and again postponed even a debate on long-term solutions for these countries and for their creditors. It is high time that we start thinking about such solutions and start acting accordingly. Although some debtor countries have undertaken sizable adjustments of their domestic and external sectors, the results so far have been mixed. The few success stories have often been achieved at the price of drastic contractions of domestic demand and imports. Exports have not been forthcoming to the extent hoped for.

Reduction of domestic demand means reduction of per capita income. And these reductions are usually in countries where per capita incomes are pitiful to

begin with. In the future we will have to develop policies that are much more oriented toward growth in these countries if we want to avoid insurmountable resistance to policy reform. This is all the more important because some of the countries we are speaking of have only recently shifted their political system to democratic forms. It would be more than tragic if these new democracies were to fail because they did not get sufficient support and encouragement from the countries that are always willing to champion democracy in their verbal declarations.

With regard to the impact of industrial countries' economic policy on developing countries, I firmly believe that the reduction of import barriers is the most important assistance that industrial countries not only should provide, but by moral standards, are obliged to offer to developing countries. Besides opening markets for their products, these countries will, however, also require outright technical as well as financial support for their economic and social systems. The development of an adequate education and health system as well as investments in productive sectors can only be accomplished with external financing. The funds provided by donor governments as well as the World Bank and other multilateral organizations will hardly suffice to meet developing countries' needs. Private capital flows will be necessary, particularly for financing investments in productive sectors, where the transfer of know-how is usually connected with direct investment. In this context, I would like to welcome the many creative initiatives of the International Finance Corporation.

Austria endorses the concepts developed by the Bank and the Fund to enhance support for countries with the lowest incomes. I would, however, like to add a word of caution with regard to these concepts. There are still formidable questions to be addressed before an enhancement of the structural adjustment facility (SAF) will be possible. Not least among these are the problems some countries face if the SAF-related assets cannot be counted as reserves. Finally, I would like to emphasize that it would be rather difficult to get parliamentary approval for an SAF enlargement in which the largest industrial country of the world, the United States, does not participate. . . .

It goes without saying that, based on our understanding of the role of the Fund, we are in favor of expediting the Ninth General Review of Quotas and of applying to it the well-tested quota formula used in the Eighth Quota Review.

Timely and efficient implementation of the quota increase will help reduce the Fund's growing reliance on borrowed resources and restore quota additions to their role as the normal way of financing the Fund's operations and meeting its goals in the global adjustment process.

In view of the task of the Fund in the international monetary system, we believe that a further allocation of SDRs would be in accordance with the principles and purpose of the Fund. At the same time, realism requires us to

point out that several improvements in the usability and liquidity of this reserve asset should be made to increase its attractiveness to monetary authorities and prevent the allocations from being deposited right back with the Fund as soon as they are received.

In concluding, let me assure you once more of Austria's strong interest in the Bretton Woods institutions, which we expect to play a leading role in assisting developing countries in the design as well as implementation of appropriate economic and social policies to improve the living conditions of the population of these countries. This role can only be fulfilled successfully if the Bretton Woods institutions are equipped with adequate resources of their own and are able to mobilize other financiers.

STATEMENT BY THE GOVERNOR OF THE FUND FOR FIJI

Jone Y. Kubuabola

On behalf of the Fiji delegation I wish to record our appreciation for the arrangements made for this Meeting. We join other delegations in conveying to you, Mr. Chairman, our congratulations and thank also the Managing Director of the Fund and the President of the Bank for their continuing efforts in promoting the objectives of their respective institutions.

We note that the world economic situation remains uncertain, despite commendable efforts on the part of the major industrial countries to coordinate their macroeconomic policies. It is of concern, however, that the growth prospects of developing countries could be adversely affected by restrictions on market access to the industrial countries. Restrictive trade practices can only lead to stagnation, and it is in our mutual interest that such restrictions be removed.

We would urge improved coordination in the economic policies being pursued by the major industrial countries in an effort to ensure orderly growth in the world economy and particularly to stabilize exchange rates.

We see benefits in the use of the indicator approach, as adopted in the recent *World Economic Outlook*. Further work needs to be done in this regard to refine the indicators and to ensure their consistent use by the industrial countries. Without the full cooperation of these countries, the exercise cannot be effective. Given the central role of the Bank and the Fund in the promotion of economic growth and stability, it is imperative that both institutions be provided with increased resources, so that they may fulfill the roles expected of them.

We support the Ninth Review of Quotas for the Fund, and we request that quota resources be doubled and that the necessary action be expedited. . . .

We welcome the decision by the Interim Committee to maintain access limits under the enlarged access policy. Unfortunately, the guidelines on access have been applied in a very restrictive way, with the result that actual access remains far below the limits. We would urge that a more liberal application of the guidelines be pursued, so that the recent negative net flow of funds from the developing countries to the Fund could be reversed. We note that the Fund's Executive Board is to review access under the compensatory financing facility (CFF). The low conditionality and the access limits under the CFF should be retained. An allocation of SDRs and the access limits under the SDRs should also be resumed, so that part of the liquidity needs of developing countries with limited access to capital markets can be satisfied through this means. We regard it as important to respect the multilateral character of the Bank and the Fund. These institutions should not be dominated by any country or group of countries. . . .

Finally, we would note that a significant part of our discussions have focused on the poorest countries and those burdened by crippling debt. This we fully understand and appreciate. Indeed, we support the measures being proposed for alleviating the problems faced by these two groups of countries. We would, however, wish to draw attention to another group of countries—small, middle-income countries such as Fiji—which are neither overburdened by debt nor qualify to be categorized as the poorest. Such countries, many of which are numbered among the developing island and landlocked states, having pulled themselves up by their bootstraps, now find themselves disadvantaged in terms of concessional finance or reduced aid flows. In such circumstances, sustaining the small gains made is proving extremely difficult. We would ask that our needs and our concerns also be addressed, lest by their neglect a new generation of problems confronts us in the foreseeable future. The stark reality of our interdependence behooves us all to cooperate fully in the search for peace, progress, and stability. My Government remains committed to playing our part in that search.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR THE LAO PEOPLE'S DEMOCRATIC REPUBLIC

Sisavath Sisane

On behalf of the Lao People's Democratic Republic and of the Lao delegation, I wish to congratulate you, Mr. Chairman, on being appointed to preside over the Forty-Second Annual Meetings of the Boards of Governors of the World Bank and the International Monetary Fund. I am firmly convinced that our Meetings, under your chairmanship, will unfold in an atmosphere of understanding and mutually beneficial cooperation.

I take this opportunity to express our delegation's thanks to the President of the World Bank, the Managing Director of the International Monetary Fund, and their staffs for all the efforts they have devoted toward ensuring the successful organization and smooth running of our Meetings, and I also wish to thank the Government of the host country for the facilities it has made available to us.

Our Meetings open this year at a time when the international economic situation is both difficult and complex. As both the Bank and the Fund have stressed in their reports, the world economic scene is characterized by a slowing down of economic activities in the industrial countries. The problems of a deficit trade balance, a decline in commodity and agricultural prices, intensified protectionist measures on the part of the industrial countries, inadequate external financing for the developing countries, climbing real interest rates, the developing country debt, and exchange rate instability continue to be matters of concern for the developing countries, and in particular for the poorest among them. All these problems serve to heighten the uncertainties weighing on world economic growth.

With a view to solving these problems efficiently, the industrial countries will need to coordinate their macroeconomic policies, install a mutual surveillance system, and make their markets more accessible to the products of the developing countries. In addition, they, as well as the multilateral finance agencies, will need to attempt to expand their base for providing assistance and financing to the developing countries.

I should now like to report on the way the economic situation in the Lao People's Democratic Republic has been developing, and the results accomplished.

The Lao People's Democratic Republic, which belongs to the group of least-developed countries, has, since its creation on December 2, 1975, had to face up to many natural difficulties, and at the same time cope with subversion and sabotage on the part of the enemies of the new regime.

In recent years, we have unceasingly devoted all our efforts to agricultural production, and we have basically achieved self-sufficiency in food. This year, however, we have experienced prolonged drought, which has seriously affected our harvests. Despite all our efforts, we anticipate a poor harvest, particularly in the mountainous regions where slash-and-burn farming is practiced.

To ensure accomplishment of the objectives of the Second Five-Year Plan (1986–90), the Government of the Lao People's Democratic Republic has prepared and is gradually implementing its new system of economic management. But in terms of financing, and despite the fact that we have mobilized all our domestic resources, external financing in the form of grants or concessional lending will be necessary.

With respect to the policy of the Bank and the Fund, I should like to express our point of view on the following issues.

Our delegation believes that an increase in the capital of the Bank and the Fund is imperative to enable them to meet the financing needs of the developing countries. . . .

We ask the two institutions to continue to play their respective roles as multilaterals, to continue to perform their catalytic and surveillance functions, to consider the possibility of easing loan conditions, and to facilitate repayment for the most indebted countries.

We support the policy of our two institutions on the promotion of structural and sectoral reform programs within the framework of the structural adjustment facility.

At this point, we should like to congratulate the leaders of the Bank and the Fund for the successes already obtained, and we wish them continued success in the future.

In conclusion, allow me to express the gratitude of the Lao people and Government for the financial assistance that the Bank and the Fund have provided to help us in our work of national reconstruction.

We wish the greatest success to the work of these Annual Meetings.

Statement by the Governor of the Bank for Luxembourg

Jacques Santer

The very elaborate and thoughtful remarks made by the Managing Director of the Fund, Mr. Camdessus, and the President of the World Bank, Mr. Conable, at the beginning of our gathering have clearly shown that against a background of cautious optimism there remain a number of important issues of worldwide concern that have yet to be settled.

During the past year, we have been confronted on several occasions with downward revisions of growth estimates in world output and trade, so that expectations for a stronger revival of the world economy have not been fully met. This is all the more surprising since our expectations were largely based on the rightful assumption that the adjustment of relative prices and the successful fight against inflation, as well as reduced interest rates, would significantly bolster a resurgence of activity.

We all know, though, that the world economy needs stronger activity. For most industrial countries, stronger activity is needed to help reduce unemployment, a scourge that continues to haunt many governments, especially in

Europe. For some other countries, which have not yet adjusted their fiscal and financial balances, it is an equally important requisite for achieving those objectives. And for all of them, stronger activity would greatly facilitate and speed up the restructuring process of their economies—a statement for which Luxembourg bears good witness.

Stronger growth of world output and demand is all the more needed for the indebted developing countries that, as a consequence of falling oil and commodity prices, have been exposed to large shortfalls in export revenues at a moment when international lending to them has been scaled back and net reflow of funds has become a hard reality. Low demand and the constraints on financial resources in the industrial countries have forced the developing countries to reduce imports drastically. This reduced import capacity is threatening to spill back into the industrial economies and to impair their ability to support their own internal adjustment with export growth.

International debt and adjustment problems are thus closely interrelated, and only a cooperative approach can lead to satisfactory solutions. Otherwise, there is a real danger that the present recovery—albeit relatively weak but ongoing—will be crushed between the unsustainability of the imbalances on which it is founded and the deflationary effects of their inevitable correction.

The authorities of the major countries are aware of such a danger, and I welcome their endeavors to agree on commonly accepted policies and measures aimed at restoring balances and promoting growth. In this respect, the United States should continue to focus on a reduction of its fiscal and trade imbalances; Japan should continue to foster domestic demand and to open up its markets; and European countries should complete their fiscal adjustment and structural reforms.

Against this setting of broadly accepted objectives, the Louvre accord on exchange rate stabilization was undoubtedly a very helpful agreement, whose spirit ought to be pursued in future negotiations.

World trade should not be hampered further by new restrictive practices, and existing trade barriers should be dismantled as far and as soon as possible. I therefore encourage all those engaged in the present trade negotiations to work effectively to achieve open and free markets. The alleviation of the international debt situation depends essentially on better trade prospects.

I am in a fairly satisfactory position to judge the importance for a country of ensuring freedom of trade and, I may add, of capital movements. Indeed, Luxembourg has traditionally been a country free of any restrictive practices in its economic and financial relations with the rest of the world, and historically the benefits of such a policy have largely outweighed its costs. Thus, the far-reaching restructuring of the Luxembourg economy, by which, on a macroeconomic level, the decay of the steel sector was compensated for by the rise and growth of an international financial center, could only happen because there were no restrictions on cross-border transactions.

Now the Luxembourg economy continues to grow at a steady, although moderate, pace. Helped by a favorable environment, most economic variables have been brought to or kept at satisfactory levels: inflation is subdued, unemployment is very low, the current account is largely positive, and the fiscal budget is balanced. This situation permits the Government to continue its restructuring policy and to consolidate its fiscal position. Diversification among and within economic sectors is a key objective in the restructuring process, and fostering business competitiveness is one of the main objectives of ongoing fiscal reforms.

Turning back to international cooperation, I would like to make a few remarks on the role of the Bank and the Fund in the present world economic context. I alluded earlier to the importance for the world economy of countries' adopting a cooperative approach in order to eliminate existing imbalances and promote growth. The Fund, which shares those goals, remains the international institution that is in the best position to offer effective assistance in reaching these goals.

Indeed, the Fund has always shown that it is capable of generating innovative ideas and creating new mechanisms that are substantial contributions to the solution of international economic and monetary problems. This innovative function of the Fund, which is basically an intellectual one, is one of its most valuable assets.

In this respect, an important innovation is the introduction and the use of objective economic indicators to monitor the surveillance of the major economies. The Fund is to be commended for giving concrete shape to this idea, and the countries concerned are to be encouraged to devise common policies along the lines suggested by the use of the indicators.

With regard to the debt strategy, the Fund's present role is basically the right one, although it may need reinforcement in certain areas. Radical solutions to the debt problem, such as merely forgiving the indebted countries some part of their debt, would produce only limited short-term gains to the countries receiving relief. In the long run, it would probably exclude them from access to the financial markets for years to come, thereby increasing rather than reducing the risk that they would default on their later repayment obligations. More realistic solutions, such as the debt-for-equity swaps and other innovative proposals, might, however, be considered under the aegis of the Bretton Woods institutions and might be applied case by case. The only viable alternative overall, though, seems to be the continuation of the growth-oriented strategy, with the understanding that its success depends crucially on sustained growth policies in the industrial countries, on free trade, and on a strengthening of the Fund's lending role.

Now, more than ever, the indebted developing countries, for their part, must continue to work in a structural framework, focusing on those policies

that promise to improve their internal growth prospects by increasing domestic savings and domestic absorption capacity and thus gradually reducing their reliance on external borrowing and traditional export markets.

In this context, the proposal by the Managing Director of the Fund, as endorsed by the Venice summit, to increase substantially the structural adjustment facility (SAF) is to be welcomed as an appropriate contribution to the present debt strategy. With regard to the financing of the increased SAF, alternative financing proposals, such as the conditional use of an additional SDR allocation, might also be considered if there were reluctance to appropriate budgetary resources.

The Fund's lending role should not be impaired at present by a reduction of access limits, either under the enlarged access policy or under the special facilities; a reduction would give the wrong signals to the debtor community at a time when the Fund is committing itself to strengthening its role. However, a progressive phasing out of the enlarged access policy could possibly be considered in the context of a substantial quota increase under the Ninth Review.

A new quota increase would also enable the Fund to depart from borrowed resources as a means of financing its programs and resort again to quota subscriptions, which are its normal way of financing. Luxembourg fully supports a quota increase and has asked the Fund for an individual calculation of its quota to bring it in line with the relative position of Luxembourg in the world economy.

Cooperation between the Bank and the Fund has been hailed by many as a very important element of the overall debt and development strategy. The rationale for such cooperation lies in the tight link between balance of payments adjustment on the one hand and adjustment of domestic economies on the other. I can only reiterate that cooperation between our two institutions should continue and be reinforced.

I also welcome the proposals made to alleviate the debt situation of the poorest countries, notably in sub-Saharan Africa, which are undertaking effective adjustment programs with the assistance of the Bank and the Fund, by reducing the interest burden and extending maturities and grace periods. . . .

The world economic and financial system faces very difficult challenges, which can be met only with a coherent strategy along the lines designed by the President of the Bank and the Managing Director of the Fund. The Luxembourg Government, therefore, fully supports the Bretton Woods institutions in their most important tasks.

STATEMENT BY THE GOVERNOR OF THE BANK FOR MALTA

George Bonello Du Puis

It is my honor and pleasure to address you for the first time as my country's representative at these Forty-Second Annual Meetings of the World Bank and the International Monetary Fund, as well as to welcome Mr. Camdessus as the Fund's new Managing Director. I would have wished that the circumstances in which we meet had been somewhat more propitious. Recent reports, however, seem to indicate that the world economy is at present steering a precarious course between the Scylla of resurgent inflation and the Charybdis of renewed recession. In fact, it has been noted that, in some industrial countries and in some markets, prices have been gradually creeping upward again. The outlook is further clouded by the dangers of currency instability arising from the wide imbalances within and between the world's major industrial countries. The persistent surpluses of some major economies, together with the as yet unresolved problem of the heavily indebted developing countries, continue to exert a deflationary bias, which threatens to plunge the world once more into recession. This possibility could be accentuated by a further sharp decline in the value of the U.S. dollar, which could intensify inflationary pressures and protectionist sentiment in the world's largest economy.

There is not much that small countries, like the one I represent, can do in the face of such dangers, except to batten down the hatches and brace ourselves against possible rough weather. The main responsibility for dealing with a situation that is potentially dangerous, especially for small developing nations, rests on the large economies, on whose performance the fortunes of the rest of the world depend. At the same time, we expect the Bank and the Fund to do their part by alleviating the burden on the weak indebted countries by anticipating the problems of others and, above all, by exercising "firm surveillance" on the leading economies, in accordance with the Fund's Articles of Agreement.

For the Bank and the Fund to be able to perform their functions efficiently, however, it is essential that they should be provided with adequate resources. In this regard, it is pertinent to point out that the ratio of Fund quotas to world trade has declined from some 12 percent in 1965 to less than 6 percent in 1986. It is essential, therefore, that the forthcoming Ninth General Review of Quotas should provide for a substantial increase. SDR allocations should also be resumed as soon as possible, if we are to move any closer to the as yet distant goal of making the SDR the principal reserve asset in the international monetary system. . . .

Looking on the brighter side of things, there have been some gradual but continuing improvements in the international economic environment. There has been a slow but positive evolution in the mechanisms of multilateral

cooperation: the Plaza agreement of September 1985 and the more recent Louvre accord on exchange rates for the major currencies; the Baker plan on debt; the securing of an expanded IDA replenishment; the establishment of the structural adjustment facility (SAF) at the Fund; and the adoption of the UN Program of Action for African Economic Recovery and Development, as well as the launching of the Uruguay Round of multilateral trade negotiations under the auspices of the GATT. Worthy of special mention also are Mr. Camdessus' efforts to secure a significant increase in the resources of the SAF so as to enable the Fund to better assist the world's poorest and hardest pressed countries.

While these developments and initiatives are welcome, we feel that, in view of the seriousness and the magnitude of the problems besetting the global economy, much more needs to be done. For instance, macroeconomic policy coordination among the leading industrial countries has so far largely involved a limited exercise in exchange rate management through central bank intervention on the foreign exchange markets, without sufficient action being taken to correct the fundamental imbalances that are the underlying cause of exchange rate instability. Such exercises alone will not alter the trend toward slower growth and growing protectionism and are ultimately doomed to failure even with regard to their own limited objective.

As for the strategy that has been adopted to tackle the debt problem, this is a combination of debtor adjustment, rescheduling, growing external financial flows, and improving the international economic environment. But failure in the last two threatens the strategy. Finally, while many developing countries are being (rightly) urged to diversify their economies—usually away from dependence on commodity exports—the success of this strategy hinges critically on protectionist measures being brought to a definite standstill, particularly in the industrial countries. Indeed, little progress is possible unless protectionism is reversed in the context of the current round of multilateral trade negotiations. Otherwise, many developing countries will find themselves in the same predicament as my country did when, while striving to move away from dependence on the British military establishment, its newly established textile industry came up against quota restrictions imposed on its exports by some industrial countries.

In fact, the importance of rolling back the protectionist tide cannot be overstressed. But here, too, it is the strong countries that should take the lead. For how can the weak developing countries be expected to do without limited protection for their fledgling industries when the world's largest industrial countries, by protectionist measures, have created one of the greatest and most costly economic paradoxes of our times, namely, huge agricultural surpluses.

The newly elected Government of Malta, which I have the honor to represent here, believes, however, that protectionism is not only wrong; it is also ultimately counterproductive, since it leads to the misallocation of re-

sources. For this reason, while my Government will continue to help industries in their initial stages or those which are encountering difficulties of a temporary nature, it has indicated its intention gradually to remove protection when it becomes clear that an industry is not viable in the long run. In any event, my Government has made it clear that protection will not be open-ended, for it wants to attract investment to those industries which are truly competitive, with sound prospects of securing, holding, and adapting to export markets. Such industries would, we hope, prepare Malta for entry, eventually, into the European Economic Community. To this end, the main thrust of my Government's economic strategy—which we intend to be largely private sector oriented—will be directed to the mobilization of human resources and to investment in those industries, such as high-technology industries and offshore financial services, which we believe are well suited to the facilities and economic environment our country can provide. But for this strategy to succeed—and we believe it is the only strategy that can put our country on the path to self-sustaining long-term growth—we do need the cooperation of other countries and international financial institutions.

This brings me to a point that I believe to be of great importance not only to Malta but also to many other small states that make up a substantial proportion of the membership of the Bank and the Fund. These countries often project an image of relative economic affluence, which may conceal the vulnerability of their economic base. This vulnerability arises from their sheer smallness and openness, their often total lack of natural resources, and the fact that many of them are islands or are otherwise disadvantaged. Because of their small size, the needs of such countries, on a global scale, could not be very great. Yet because their problems are not adequately reflected in the traditional criteria of per capita income and balance of payments need, they are often denied access to the facilities of the Bank and the Fund, or at least are denied access on concessional terms. Malta, for instance, does not even qualify for World Bank loans. For these reasons, I would like to appeal to the Bank and the Fund to reconsider the current criteria for access to their facilities and the terms on which such access is granted, so as to take into account the special problems of small countries like Malta.

The fact that these institutions have become more flexible in their approach over the years gives us hope that our call will not fall on deaf ears.

Statement by the Governor of the Fund for Paraguay

Cesar Barrientos

On behalf of the Government of the Republic of Paraguay, which it is my honor to represent, I am pleased to extend most cordial greetings and warmest

regards to the Chairman of the Meetings, to the President and authorities of the World Bank and its affiliates, to the Managing Director and Executive Board of the International Monetary Fund, and to the Governors and delegates of the member countries and other participating organizations.

I would also like to wish Mr. Michel Camdessus success and wisdom in carrying out his important functions as head of the Fund.

As we join in these discussions attended by such prominent leaders working with the important issue of development, we are once again convinced of the leadership and qualifications of the Bank and the Fund in approaching the arduous common task of identifying solutions to the difficult world economic situation.

As always, a substantial proportion of our days here together will be devoted to the search for formulas and points of agreement that will make it possible to strengthen and bring closer together the economic positions taken by our countries as regards the goals of prosperity, social justice, liberty, and equal opportunity to which we aspire and to which the aims and resources of our two institutions are devoted.

As an eloquent demonstration of shared aspirations, and also as an expression of the need to achieve the political will to fulfill them, at the last Annual Meetings and repeatedly at previous Meetings we have discussed a similar list of issues concerning the role of the Fund that are of great interest and concern to the majority of Governors.

As in the past, initiatives and actions which should harmoniously and resolutely move our countries toward achieving an atmosphere and conditions conducive to recovery—in which each can achieve its own goals and fulfill its own intentions in the economic sphere and in the interest of social welfare without affecting or posing obstacles to other countries—are urgent and important issues today.

As an effective means of stimulating growth, we would like to see greater efforts made to promote widespread and vigorous world trade. Given the persistence and worsening of sizable current account imbalances and the slow progress made in dismantling structural rigidities, it is fitting for the industrial countries to seek appropriate and immediate corrections; however, they must avoid opting for any form of protectionism even as they work decisively to achieve a real reduction of interest rates.

The elimination of fiscal deficits, the expansion of domestic demand, and faster growth in the developed economies with a view to stimulating investment and improving trade continue to be factors that are decisive as regards ensuring and increasing growth in, and enhancing the competitiveness of, our countries in their capacity as exporters of primary products.

The smaller export volumes and continuing price drops for exportable primary commodities accentuate the disproportion between the debt and

foreign exchange incomes even as they exert pressure on exchange rates, thereby adversely affecting the adjustment burden.

We would like to call your attention to and cite the views expressed by former Managing Director Jacques de Larosière with respect to debt strategy and debt management: "Creditor countries must not ask debtors to adopt outward-looking policy reforms and to honor their heavy debt service obligations and simultaneously handicap their ability to do so." In the knowledge that the debt crisis can only be overcome by means of a strategy for action based on economic growth, we take note of the importance of implementing policies and making efforts that entail equitable sharing of burdens by debtors and creditors alike. One anticipated result would be that export competitiveness and efficiency would come to depend more on the efforts of the developing countries themselves, and not, as at present, almost exclusively on domestic political decisions reached by the industrial countries.

These reflections on the external framework do not rule out, and indeed they underline, the complementarity required in the application of the effective growth-oriented stabilization policies to be pursued by the developing countries.

It is in this context that the Government of Paraguay has made a renewed effort and, step by step, posted successes in its endeavor definitively to achieve both an economic takeoff and social progress. Noteworthy are the introduction and steady refinement of recently adopted economic measures aimed at increasing production; rationalizing public spending while according priority to investment in infrastructure; balancing the external accounts; bringing inflation under control; reducing the public sector deficit; protecting and increasing wage levels; and improving employment levels.

After two years of continuous growth in gross domestic product (up 3.1 percent in 1984 and 4 percent in 1985), the projected targets were not met in 1986, when our economy registered no growth of any kind, although the introduction of significant exchange rate measures and steps to enhance efficiency allow us to estimate 1987 growth at 4 percent so long as the gradual rise in the prices of the major export commodities continues.

In the fiscal area, the Central Administration's finances have been maintained at a level such that it has been possible to finance 90 percent of aggregate expenditure by current revenues. In these circumstances, no current account deficit has been posted by the Central Administration in 1986 or the current year, and only moderate use has been made of domestic public credit.

Owing to its weaker reserves position, the persistence of unfavorable terms of trade, and the effects of not subjecting the country to strong debt service pressures, Paraguay has found itself obligated to substantially limit external financing, although it has pressed ahead with efforts involving existing lines of credit as well as with actions associated with infrastructure projects and productive sector development projects now under way.

In the foreign trade area, there has once again been a deficit, which has been influenced by low world market prices for the major export commodities and by certain restrictions applied by the countries that purchase primary products. Exports in 1986 were down 10 percent from the 1985 level but are expected to increase in value terms in the current year. At the same time, 1986 imports increased by 12 percent over the previous year, resulting in a balance of payments deficit.

We remain confident that international cooperation will continue to become stronger, resulting in timely and effective measures to promote economic equilibrium and well-being, especially through positive resource flows together with measures and instruments which, in harmony and along with domestic efforts, will promote and facilitate sustained growth in the developing countries.

In conclusion, my country's delegation would like to thank the people and Government of the United States of America for their hospitality and for their support for the successful conduct of these discussions.

CONCLUDING REMARKS[1]

STATEMENT BY THE GOVERNOR OF THE FUND FOR SWEDEN

Bengt Dennis

It is indeed an honor for Sweden to have been selected for the chairmanship of the Boards of Governors of the Fund and the Bank for the coming year. We shall endeavor to carry out the duties of this office with the same efficiency and flair that have characterized these Meetings under the chairmanship of Ibrahim Abdul Karim, the Governor for Bahrain.

As reflected in the statements by my fellow Governors, the international economy presently faces considerable problems and strains. This presents challenges for us all. As members of the Fund and the Bank, we should give these institutions our full support to secure and enhance their central roles in international economic and financial cooperation. In the coming year, discussions will continue on the Ninth Quota Review in the Fund and on the general capital increase in the Bank. I do hope that at next year's reunion we shall be able to take note of satisfactory progress on these issues.

I would also like to use this opportunity to commend Mr. Camdessus and Mr. Conable and the Executive Directors and the staffs of both institutions for their excellent work and dedication to their important tasks. It will be a great pleasure to work with them in the year ahead. I look forward to welcoming all of you at the 1988 Annual Meetings in Berlin.

STATEMENT BY THE CHAIRMAN OF THE EXECUTIVE BOARD AND MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND

M. Camdessus

We have had a thoughtful and stimulating exchange of views. Three subjects have been in the forefront of the discussions. The first has been how to reduce imbalances and improve economic performance in the industrial countries. Governors welcomed the long record of continued growth and the fact that inflation remains for the time being under control in the major

[1] Delivered at the Closing Joint Session, October 1, 1987.

countries. But they also noted that output growth has been lackluster; that it has been associated with inadequate rates of productive investment and continued high levels of unemployment in most industrial countries; and that very large current account imbalances in the three largest countries have made the foundations of the recovery rather fragile.

There was little dissent from the proposition that the imbalances need to be dealt with in a way that does not undercut the growth of economic activity, nor refuel inflation. Several conclusions were drawn. First, it was crucial that the United States build on its notable success in 1987 and reduce its budget deficit further in 1988 and beyond. Second, in the main surplus countries domestic spending needs to grow more rapidly than output for an extended period. Third, the mix of policies must be such as to avoid higher interest rates. Fourth, effective structural policy reform has a vital role to play in strengthening the growth of output in all countries, including newly industrialized economies enjoying large current account surpluses.

* * * * *

Second, debt and development. The President of the United States surely echoed a widely held view when he referred to the debt burden as an international problem and emphasized the need to see debt retired not by extracting wealth from nations that are already too poor but by increasing the level of economic activity and servicing the debt from new wealth.

A number of proposals for refining the debt strategy have been put forward. But I heard no suggestion that the basic principles underlying our approach have become invalid. What I did hear was a clear call for a reinforcement of the strategy, whereby *all* the principal actors would do more to play their parts to the full.

It has long been recognized that for developing countries to accelerate their pace of development and begin to grow out of their debt burdens, a number of conditions will need to be satisfied. Governors re-emphasized that the first condition, the pursuit of effective policies in the countries themselves, remains fundamental. But it was recognized that self-help may yield discouragingly slow results in the absence of the second condition, a healthy world economy. This was seen as underscoring an essential point, namely, that it is not only countries that need to use the Fund's resources that must be expected to adjust. As regards the third element—an adequate flow of foreign capital—most speakers were disturbed that the availability of external financing in recent years had fallen short of the amounts that developing countries could productively use.

In the case of the highly indebted low-income countries, speakers considered that there is no viable approach other than concessional assistance. Official creditors have a special responsibility here.

In the middle-income countries the primary focus fell on the contribution that private lenders must make to reinvigorating investment and growth. Most speakers welcomed the recent development in bank financing packages of alternative financial instruments. They believed that the "menu" of options could usefully be broadened, and that national regulatory agencies could help this process. But concern was expressed about the banks' reluctance to add to their existing claims. Concern was also voiced about the burden on the debtor countries of higher interest rates—a development totally beyond their control. A number of speakers emphasized that the way forward does not lie with unilateral approaches or generalized debt relief. Rather, debtors and creditors have to recognize their common interest in reaching understandings which address the realities of the situation they face. Such understandings should be freely negotiated and market-based.

* * * * *

Third, how to harness the mechanisms of international cooperation more effectively. There are a number of areas in which Governors saw the need for cooperation as vital. One is the effective coordination of policies among the industrial countries. Speakers were generally encouraged by the progress made since the last Annual Meetings. They particularly applauded the Louvre and Venice accords as providing a strategy for maintaining growth while payments imbalances are brought into a more sustainable pattern, and they welcomed the greater stability in exchange rates of recent months.

The use of indicators was seen as having a key role to play in facilitating policy coordination—not as an invitation to fine tuning, nor as a device for overriding the exercise of judgment, but as a means of sharpening the focus of the analysis and measuring progress toward clearly defined medium-term objectives. I am pleased that you welcomed our efforts in this area and have urged us to develop our work further. In this connection, I noted the suggestion of a number of speakers that the range of indicators might be broadened to incorporate an early-warning signal of potentially troublesome price trends. I also noted that several Governors encouraged us to pursue research on strengthening the international monetary system.

A second area in which an enhanced sense of internationalism was seen to be needed—and sorely needed—is in trade policy. I have been impressed that speaker after speaker—led by yourself, Mr. Chairman—urged all governments to resist protectionist pressures and seize the opportunity afforded by the Uruguay Round to usher in a more genuinely open system of international trade—for manufactures, agricultural goods, and services alike.

The third sphere in which international cooperation clearly has a major part to play is through the work of the multilateral financial institutions. As concerns the Fund, I noted that Governors addressed not only the issue of available resources but also whether the features of various financial facilities

remain appropriate in the current circumstances. On the former, I am gratified by the wide support voiced for an enhancement of the SAF within this year. It is clear that a momentum has been established that must not be lost. We shall proceed as rapidly as possible in our discussions with potential contributors. I am also pleased by the broad backing for my proposal that Fund quotas be increased substantially.

As regards the features of Fund facilities, I spoke earlier of the need for the Fund to continue to evolve with the times. Like its partners in the debt strategy, it must carefully examine the contribution it is making and ask whether it, too, cannot do more or better. On this, we have had a rich discussion. Speakers have been receptive to a number of ideas in my opening remarks, and have well understood those ideas to be inspired by the wish to make conditionality more effective. Many speakers have also commented on various suggestions in the important reports of the Group of Ten and Group of Twenty-Four. And the Governor for the United States has advanced a number of important new proposals. Those comments and proposals will certainly make an important contribution to the ongoing work of the Executive Board.

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Finally, let me add that, as the Governor of the Philippines told us this morning, the hour is late. This means that this is no time for weakness, for complacency, for burying our money in the strong box or our heads in the sand. It is a time for strength, for solidarity, and for cooperation. I should like to join Barber Conable in complimenting you, Mr. Chairman, on the skillful conduct of our Meetings; in congratulating the Governor for Sweden, who will chair next year's Meetings; and in looking forward to seeing you all in Berlin (West) a year from now. Let me add, on a personal basis, that I have been greatly touched this week by your warm words of welcome and expressions of support.

Statement by the Chairman of the Boards of Governors, the Governor of the Fund and the Bank for Bahrain

Ibrahim Abdul Karim

It is now my duty as Chairman of the Boards of Governors to bring to a close these Forty-Second Annual Meetings of the Bank and the Fund. I would like to take this opportunity to thank my fellow Governors, Mr. Conable, and Mr. Camdessus for their valuable contributions to our deliberations.

Looking back at our discussions, it is clear to me that we are all in agreement, first and foremost, on the crucial importance of close international

cooperation. All sections of the international financial community—the industrial countries, developing countries, commercial banks, and multilateral institutions—will have to do their share if we are to be successful in restoring satisfactory and sustainable growth in the world economy.

Governors have emphasized the major role that must be played by the industrial countries, especially the larger ones, in order to strengthen noninflationary growth, while reducing the large external imbalances. President Reagan's affirmation of his commitment to continue his fight against protectionism and pursuit of policies aimed at further reducing the U.S. fiscal deficit was therefore particularly reassuring. Moreover, if the benefits of faster growth in the developed world are to be shared by the developing countries, a more open trading environment is essential. Protectionist pressures must be resisted and existing trade restrictions must be rolled back.

Governors have applauded the efforts of many developing countries that have undertaken rigorous adjustments and successfully achieved high growth rates. They urged others to follow their example.

The World Bank

Governors welcomed the Bank's initiative to assist the debt-distressed low-income countries, particularly those in sub-Saharan Africa. Further, Governors emphasized the importance of the timely provision of resources to support adjustment programs in developing countries.

I am gratified by the overwhelming support for a sizable capital increase for the World Bank that has been expressed by Governors. I trust that negotiations will begin promptly, so that an agreement can be reached by the end of the year. The Governors urged that those donors who have not formally notified IDA of their participation in the IDA-VIII Replenishment do so as quickly as possible, so as to avoid any interruption in commitments.

Governors also endorsed IFC's expanding activities in support of the private sector, including its use of debt/equity swaps and capital market funds. Concerning MIGA, while progress toward its launching is under way, the ratifications needed for it to become effective are yet to be completed.

With regard to the environment, the Governors welcomed the new and stronger emphasis to be placed by the Bank on protection of the environment consistent with acceleration of economic growth. Governors noted that this topic will be discussed by the Development Committee at its future meetings.

The Fund

Broad support has been expressed for the Fund's role in promoting a favorable economic environment. Governors particularly endorsed the Fund's surveillance functions and the greater utilization of selected indicators in

assessing the sustainability and desirability of key economic variables within a medium-term framework.

The central role of the Fund in the debt strategy was reaffirmed, and many Governors have called for a strengthening of the strategy. It is indeed essential that all parties to the strategy play their role in full. Growing markets, continued adjustment, and adequate flows of finance are essential to resolve the problem.

Overwhelming support was expressed for the Managing Director's proposal to enhance the structural adjustment facility to help the low-income countries to overcome their difficulties. A number of speakers have indicated their governments' commitment to make the necessary contributions to facilitate a substantial increase in the resources available to that facility.

* * * * *

These Annual Meetings have provided us with an opportunity to share our views on developments in the world economy and to express our support for the activities of the World Bank and the Fund. It is now the responsibility of all of us to follow through on our commitments.

On behalf of my fellow Governors, I wish to thank the Government and people of the United States for their gracious hospitality and to commend the staff of the Joint Secretariat for their role in ensuring the smooth functioning of these meetings. I extend my best wishes to the Governor for Sweden, who is succeeding me as Chairman of the Boards of Governors.

Fellow Governors, the soul sees things in their truth. Let us put the seal of love on all that we do, for nothing else lasts. May God's peace by upon you all.

With that I hereby adjourn the 1987 Annual Meetings of the Boards of Governors of the World Bank and its affiliates and of the International Monetary Fund.

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DOCUMENTS
and
RESOLUTIONS OF THE BOARD OF GOVERNORS

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SCHEDULE OF MEETINGS [1]

Sunday September 27	9:30 a.m.—Interim Committee[2] 3:00 p.m.—Interim Committee[2]
Monday September 28	7:45 a.m.—Interim Committee[2] 9:00 a.m.—Development Committee 2:30 p.m.—Development Committee 10:00 p.m.—Development Committee
Tuesday September 28	10:00 a.m.—Opening Ceremonies Address by the President of the United States Address from the Chair Annual Address by President, IBRD, IFC, and IDA Annual Address by Managing Director, IMF 3:00 p.m.—Annual Discussion
Wednesday September 30	9:30 a.m.—Annual Discussion 3:00 p.m.—Annual Discussion 6:00 p.m.—Joint Procedures Committee
Thursday October 1	9:30 a.m.—Annual Discussion 2:30 p.m.—ICSID Administrative Council 4:00 p.m.—Joint Procedures Committee Reports Concluding Comments by Heads of Organizations Adjournment

[1] Meetings of the Joint Development Committee were held jointly with the Board of Governors of the Bank. The sessions of the Annual Meetings were held jointly with the Boards of Governors of the Bank, IFC, and IDA.

[2] Fund only.

PROVISIONS RELATING TO THE CONDUCT OF THE MEETINGS

Admission

1. Sessions of the Boards of Governors of the Bank, IFC, and IDA, and the Fund will be joint and shall be open to accredited press, guests, and staff.

2. Meetings of the Joint Procedures Committee shall be open only to Governors who are members of the Committee and their advisers, Executive Directors, and such staff as may be necessary.

Procedure and Records

3. The Chairman of the Boards of Governors will establish the order of speaking at each session. Governors signifying a desire to speak will generally be recognized in the order in which they ask to speak.

4. With the consent of the Chairman, a Governor may extend his statement in the record following advance submission of the text to the Secretaries.

5. The Secretaries will have verbatim transcripts prepared of the proceedings of the Boards of Governors and the Joint Procedures Committee. The transcripts of proceedings of the Joint Procedures Committee will be confidential and available only to the Chairman, the President of the Bank and its Affiliates, the Managing Director of the Fund, and the Secretaries.

6. Reports of the Joint Procedures Committee shall be signed by the Committee Chairman and the Reporting Member.

Public Information

7. The Chairman of the Boards of Governors, the President of the Bank and its Affiliates, and the Managing Director of the Fund will communicate to the press such information concerning the proceedings of the Annual Meetings as they may deem suitable.

AGENDA

1. 1987 Annual Report

2. Report of the Chairman of the Interim Committee
   (Fund Document No. 4)

3. Annual Report of the Joint Development Committee
   (Fund Document No. 5)

4. Financial Statements and Audit Report
   (Appendix VIII of 1987 Annual Report and
   Fund Documents Nos. 6 and 7)

5. Administrative Budget for Financial Year ending April 30, 1988
   (Appendix VII of 1987 Annual Report and
   Fund Documents Nos. 7 and 8)

6. Selection of Officers and Joint Procedures Committee for 1987/88

REPORTS OF THE JOINT PROCEDURES COMMITTEE

Chairman........	Bahrain
Vice Chairmen........	Argentina
	New Zealand
Reporting Member........	United States

Other Members: Belgium, Burundi, France, The Gambia, Germany, Greece, Guatemala, Jamaica, Japan, Korea, Malta, Mauritania, Mauritius, Saudi Arabia, Singapore, Tunisia, United Kingdom, Venezuela

Report II[1]

October 1, 1987

Mr. Chairman:

At the meeting of the Joint Procedures Committee held on September 30, 1987, the items of business on the agenda of the Board of Governors of the International Monetary Fund were considered.

The Committee submits the following report and recommendations:

1. *1987 Annual Report*

The Committee noted that provision had been made for the annual discussion of the business of the Fund.

2. *Report of the Chairman of the Interim Committee*

The Committee noted the presentation made by the Chairman of the Interim Committee.[2]

The Committee recommends that the Board of Governors of the Fund thank the Interim Committee for its work.

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[1] Report I dealt with the business of the Boards of Governors of the Bank, IFC, and IDA. Report II and the Resolution recommended therein were adopted by the Board of Governors of the Fund, in Joint Session with the Boards of Governors of the Bank, IFC, and IDA, on October 1, 1987.

[2] See pages 27–31.

3. *Financial Statements, Report on Audit, and Administrative Budget*

The Committee considered the Report on Audit for the financial year ended April 30, 1987, the Financial Statements contained therein (Fund Document No. 6 and Appendix VIII of the 1987 *Annual Report*), and the Administrative Budget for the financial year ending April 30, 1988, and the Capital Budget for capital projects beginning in financial year 1988 (Fund Document No. 8 and Appendix VII of the 1987 *Annual Report*).

The Committee recommends that the Board of Governors of the Fund adopt the draft resolution set forth in Fund Document No. 7.[3]

Approved:

/s/ J.L. MACHINEA	/s/ R.B. KEATING
Argentina—Acting Chairman	*United States—Reporting Member*

[3] Resolution No. 42-3; see page 253.

Report III [1]

October 1, 1987

Mr. Chairman:

The Joint Procedures Committee met on September 30, 1987 and submits the following report:

1. *Development Committee*

The Committee noted that the Annual Report of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) has been presented to the Boards of Governors of the Bank and the Fund pursuant to paragraph 5 of Resolutions Nos. 294 and 29-9 of the Bank and the Fund, respectively (Bank Document No. 3 and Fund Document No. 5)[Annex].

The Committee recommends that the Boards of Governors of the Bank and the Fund note the report and thank the Development Committee for its work.

2. *Officers and Joint Procedures Committee for 1987/88*

The Committee recommends that the Governor for Sweden be Chairman, and the Governors for Italy and Pakistan be Vice Chairmen, of the Boards of Governors of the Bank and its affiliates and of the Fund, to hold office until the close of the next Annual Meetings.

It is further recommended that a Joint Procedures Committee be established to be available, after the termination of these meetings and until the close of the next Annual Meetings, for consultation at the discretion of the Chairman, normally by correspondence and, if the occasion requires, by convening; and that this Committee shall consist of the Governors for the following members: Austria, Burkina Faso, Brazil, Central African Republic, China, Fiji, France, Federal Republic of Germany, Honduras, Italy, Japan, Republic of Mozambique, Oman, Pakistan, Philippines, St. Lucia, Saudi Arabia, Seychelles, Sweden, United Kingdom, United States, and Uruguay.

It is recommended that the Chairman of the Joint Procedures Committee shall be the Governor for Sweden, and the Vice Chairmen shall be the Governors for Italy and Pakistan, and that the Governor for Austria shall serve as Reporting Member.

[1] Report III and the recommendations contained therein were adopted by the Boards of Governors of the Bank, IFC, and IDA, and of the Fund, in Joint Session, on October 1, 1987.

Approved:

/s/ J.L. MACHINEA
Argentina—Acting Chairman

/s/ R.B. KEATING
United States—Reporting Member

Annex to Report III

September 29, 1987

Sir:

As Chairman of the Joint Ministerial Committee of the Boards of the Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee), I have the honor to present herewith to the Boards of Governors a report by the Committee on the progress of its work during the period July 1986–June 1987. The report is presented in compliance with Section 5(i) of the Bank Board of Governors Resolution No. 294 and the Fund Board of Governors Resolution No. 29-9, adopted on October 2, 1974.

Sincerely yours,
/s/
B.T.G. CHIDZERO
Chairman
Development Committee

Attachment

His Excellency
Ibrahim Abdul Karim
Chairman of the Boards of Governors
International Monetary Fund
and the World Bank

Attachment

Report of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries

(July 1986–June 1987)

I. Introduction

1. This is the thirteenth annual report of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) covering the period from July 1986 to June 1987.

2. The Committee held three meetings during the year. The first meeting was convened in Washington, D.C. on September 29, 1986, chaired by His Excellency Ghulam Ishaq Khan, Chairman of the Senate of Pakistan, and was followed by a short procedural meeting on October 2, 1986 for the selection of a new chairman. The Committee selected the Honorable B.T.G. Chidzero, Minister of Finance, Economic Planning and Development of Zimbabwe, as Chairman. The third meeting of the Committee also took place in Washington, D.C., on April 10, 1987.

3. The substantive meetings of the Committee during the year continued to be held on the basis of a morning plenary session followed by an informal afternoon debate which facilitated free discussion among members on development issues. During the year the Committee received advance statements and papers from the following observers: African Development Bank (AfDB), Commonwealth Secretariat (COMSEC), Development Assistance Committee (DAC), General Agreement on Tariffs and Trade (GATT), Inter-American Development Bank (IDB), International Fund for Agricultural Development (IFAD), Islamic Development Bank (IsDB), United Nations Conference on Trade and Development (UNCTAD), and the United Nations.

4. The major theme of discussions at Committee meetings during the year was the revival and sustaining of growth in the developing countries. Under this theme the Committee reviewed several pressing development issues: progress of the heavily indebted middle-income countries; developments in sub-Saharan Africa; the role of the World Bank and the Fund; market prospects of raw materials, including consideration of the impact of industrial countries' agricultural policies on developing countries' economic prospects; international trade implications for development; the poverty impact of structural adjustment and developmental lending; and environment, growth, and development. These issues were considered against the background of current developments in the global economy.

II. Global Economic Setting

5. In statements by the Chairman, the Managing Director of the IMF, and the President of the World Bank, a picture was drawn of the global economic setting against which the Committee held its discussions. In the fall of 1986 there were indications of a slowing down in economic activity in the industrial countries relative to earlier expectations. Strong growth in the United States, containment of inflation, decline in interest rates, and the fall in oil prices had earlier been expected to have a favorable impact on growth prospects. Export earnings and growth in many developing countries were affected by the intensification of protectionist measures in the industrial countries and a continued decline in commodity prices. The growth prospects of industrial countries in the next few years were assessed by the World Bank at a level of under 3 percent.

6. The outlook for trade was also not encouraging. Between 1984 and 1985 international trade slowed appreciably and no faster growth was expected in 1986. An increasing volume of imports from developing countries was largely dependent on the United States' import growth as compared with all other major industrial countries. At the same time, there were mounting pressures for protectionism in the United States. These adverse trends in world trade were not compensated by enlarged flows of capital to the developing countries, with total net financial inflows to the developing countries reduced significantly. Total net financial flows to the developing countries, particularly commercial bank lending, had declined further. Net long-term capital flows to developing countries have continued to decline since 1981, reaching a level in 1985 less than half the 1981 level. The balance of payments and external debt position of many developing countries continued to be difficult and was expected to worsen in the near term despite the decline in international interest rates, leading to a reduction in the cost of servicing debt.

7. These developments in the global economy have had an adverse impact on the developing countries, leading to a downward revision in World Bank estimates of GDP growth for those countries in 1986 to 3.3 percent as compared to an earlier estimate of 3.8 percent. Revised per capita growth for 1986 was estimated at 1.2 percent, which was low by historical levels. Among the developing countries, the group of most heavily indebted countries was expected to have a decline in growth in 1986 after some recovery between 1983 and 1985. The prospects for the oil importing countries had improved from the decline in oil prices, while the outlook for the oil exporting countries had worsened substantially. Some improvement for the oil exporters was expected in 1987. While low-income countries as a group had shown fair growth in 1986, growth in the small low-income countries was expected to fall in 1987. The general outlook for growth in the developing countries was less favorable than earlier forecast, although the near-term prospects seemed better than the performance in the early 1980s.

8. At the April 1987 Development Committee meeting, the Managing Director of the IMF, in reviewing the discussions in the Interim Committee, summarized the world economic outlook in the following terms: real GNP growth in the industrial countries was likely to remain at 2½ percent in 1987; the global economic environment, with the adverse terms of trade and constrained external financing, continued to be difficult for the developing countries in 1987; the external current account situation had weakened. The oil exporting countries were the hardest hit among the developing countries in 1986 with a contraction of output and a significant deficit in their current account balance; economic growth in the heavily indebted countries was mixed, while the group, as a whole, recorded a marked decline in inflation. Externally, their position weakened significantly more than for the developing countries as a group. The small low-income countries, including sub-Saharan Africa, had some increase in real per capita GDP in 1986 but their external accounts remained vulnerable and the outlook continued to be extremely difficult.

III. Consideration of Development Issues

A. Progress in the Heavily Indebted Middle-Income Countries

9. Against the economic setting indicated above, during the year the Committee focused on the theme of growth in its discussion on the pressing problem areas among the developing countries. Progress of the heavily indebted middle-income countries and the implementation of growth-oriented programs were reviewed and discussed in the light of the consensus reached at the Seoul meeting in October 1985. This consensus called for concerted action by all the major parties—the indebted countries, the industrial countries, the commercial banks, and the multilateral financial institutions. The greater involvement of the multilateral development banks, particularly the World Bank in close collaboration with the IMF, was conceived so as to help the heavily indebted countries move as quickly as possible toward sustained economic growth through the design, financing, and monitoring of growth-oriented adjustment programs. In September 1986 the Committee reviewed the experience of the heavily indebted middle-income countries in the revival of growth. It was noted that although a good start had been made by many developing countries, some of the key assumptions underpinning the consensus approach, notably rapid export growth and increased capital flows, had not yet materialized. The overall picture was mixed, with some countries successful in dealing with the deteriorating trends in growth, while others, particularly those where adjustment programs were not fully underway, continued to experience declining income and worsening financial instability. Where improvements in the current accounts have taken place, this was often through compression of imports and domestic demand. Continuation of this

development would undermine the capacity to grow, the servicing of debt, and external borrowing.

10. The Committee reaffirmed at its September 1986 meeting the broad approach to achieving sustainable growth which it had adopted at previous meetings but noted that substantial additional efforts were required by the indebted countries, industrial countries, commercial banks, and the international financial institutions. The heavily indebted countries were encouraged to continue to implement growth-oriented adjustment programs with support from the Fund and the Bank. Industrial countries could contribute to the success of these programs by improving their own policy framework with a better coordination of macroeconomic policies, domestic policy changes, and trade liberalization to achieve a higher level of sustained growth. An increase in net lending was required particularly from the commercial banks. So far as the international financial and development institutions were concerned, the initiatives taken by the World Bank and the IMF in many heavily indebted countries were welcomed by the Committee noting particularly, in addition to their financial roles, the catalytic and advisory roles of these institutions. Expanded lending by the World Bank for structural and sectoral reform programs in the past year was welcomed.

11. A further detailed review of progress in the implementation of growth-oriented programs in the heavily indebted middle-income countries took place at the April 1987 meeting with reports on particular country cases. The Committee noted the difficulties that many indebted middle-income countries faced in pursuing adjustment programs aimed at achieving growth, improving living standards, and strengthening their external financial situation. The deterioration in the terms of trade and the slack in commercial bank financing had adversely affected many countries. The Bank and the Fund were asked by the Committee to examine additional measures to refine and strengthen the implementation of growth-oriented programs and to make recommendations to the Committee at a future meeting.

B. Developments in Sub-Saharan Africa

12. The Committee continued to monitor closely developments in sub-Saharan Africa. Since the Committee's review of a World Bank report on "Financing Adjustment with Growth in Sub-Saharan Africa, 1986 to 1990," the United Nations General Assembly had convened in May 1986 a Special Session on the critical situation in Africa. At that session, a consensus had crystallized between African governments and donor governments in a commitment to undertake reforms embodied in the UN Program of Action for African Economic Recovery and Development in Africa 1986–1990. While the Committee noted progress by many African governments in undertaking policy reforms, there was still a decline in long-term economic and social trends. The introduction of budgetary and financial reform, as well as pricing

and exchange rate policies in many African countries, was noted. As a result, an increased number of countries had become eligible for the World Bank's Special Facility for Sub-Saharan Africa, bringing the total to 20 by mid-1986. The Committee urged bilateral and multilateral agencies to support the implementation of the program, particularly noting the estimated annual gap of $2.5 billion in concessional flows over the next five years by low-income countries in sub-Saharan Africa.

13. At its April 1987 meeting, the Committee had a report from the World Bank on the economic situation and resource requirements of sub-Saharan African countries. In particular, progress in the implementation of growth-oriented programs in sub-Saharan African countries was addressed. The picture for sub-Saharan Africa in 1986 was mixed. Prospects were not encouraging, with a further decline in primary commodity prices, a projected weakening in export growth, and the overhang of the debt burden. It was noted that some 25 countries in sub-Saharan Africa are in the course of implementing or about to initiate major programs of structural reforms. It had been a major achievement of African governments to undertake such wide-ranging reform programs with social and political costs. Consequently, there was a need to strengthen the financial support to these countries in order to sustain the reform process.

14. While there had been an encouraging increase to sub-Saharan Africa in official concessional flows in 1985, this was more than offset by a decrease in net official nonconcessional and private loans. Total gross capital flows to all sub-Saharan Africa stagnated in real terms. However, the Bank, through IDA and the Special Facility for Africa, had increased disbursements by 80 percent in 1986 over 1985 in 22 IDA-eligible countries in Africa. Fund and Bank programs of assistance had been strengthened through the formulation of policy framework papers for those sub-Saharan African countries that had adopted or requested programs supported by the IMF's structural adjustment facility (SAF), under which credits of SDR 327 million had been approved in April 1987 for ten countries. The Committee had called on industrial countries to close the estimated annual gap of $2.5 billion in concessional flows by providing additional ODA through both bilateral and multilateral channels to countries undertaking significant reform programs. A year later the need for enlarged concessional flows was reiterated by ministers, particularly noting the severe problem of indebtedness faced by many of these low-income countries.

15. A Bank report noted that the gravity of the African debt problem should not be underestimated. For low-income sub-Saharan Africa, the debt service ratio rose by almost half between 1980 and 1985 and, but for a large number of reschedulings, would have been higher. For several of these countries with prolonged debt problems, even continued debt rescheduling on liberal terms would leave their debt burden unmanageably high in the near term. The World Bank estimates that in 1986 to 1988 the multilateral share of debt service

payments for 13 of these sub-Saharan African countries would exceed \$1 billion annually, accounting for around three fourths of actual debt service payments. To deal with this problem, the Bank report pointed out that massive new flows of aid and/or innovative debt relief of some sort was needed.

16. At the April 1987 meeting, the Committee agreed that additional measures were needed to undertake growth-oriented programs, thereby improving the capacity of these countries to service their debts. Note was taken of the indications given by the Paris Club to move toward more realistic rescheduling terms for the poorest nations undertaking strong growth-oriented adjustment programs. The Bank and the Fund were requested to put forward proposals of action at the Development Committee meeting in September 1987 to address the problems of countries facing exceptional difficulties. This should also take account of the actions being undertaken under the United Nations Program of Action for African Economic Recovery and Development in Africa 1986–1990.

C. Aid Coordination in Sub-Saharan Africa

17. Following a report by the World Bank on aid coordination at the April 1986 meeting, when there was strong support for enhanced aid coordination, the Committee had a further review of aid coordination in sub-Saharan Africa in September 1986. The Bank provided a background paper on "Improving the Effectiveness of Aid Coordination in Sub-Saharan Africa," and put forward proposals of areas in which aid coordination could be improved between recipient countries and donors. The paper pointed to the need for more reciprocal undertakings between recipient countries and donor governments with donors strengthening their support for medium-term growth-oriented programs; the quality of aid needed to be improved with more fast-disbursing assistance in support of structural and sectoral adjustment operations; improvements in aid coordination mechanisms in the functioning of Consultative Groups and Round Tables as well as their monitoring were required. At the September 1986 meeting, ministers reaffirmed the importance of strengthening the coordination of aid flows in low-income countries so as to increase their effectiveness. The World Bank was called on to take the lead in the initiatives contained in their report to the meeting, particularly in strengthening the capacity of recipient governments to play the central role in aid coordination and encourage mechanisms for joint monitoring. A report was requested by the Committee in a year's time on progress achieved in aid coordination.

D. Role of the World Bank and the International Monetary Fund

18. The role of the World Bank and the Fund in the revival of growth was discussed at the September 1986 meeting. The Committee reaffirmed the central role it attached to the World Bank as a global development institution

with the fundamental objectives of accelerating economic growth and alleviating poverty. It was agreed that both the Bank and the Fund had a catalytic and advisory role in the design, financing and monitoring of growth-oriented adjustment programs for the heavily indebted and other countries. Expanded lending by the Bank for structural and sectoral reform programs in the heavily indebted countries in the last year was welcomed by the Committee.

19. There was also a discussion in September 1986 on the World Bank's overall lending program in relation to the continued adequacy of the World Bank's capital, including the need for a general capital increase. In the previous year, the Committee had had extensive discussions on the Bank's lending program and its resource requirements following consideration of the subject in the Bank's Executive Board. The Committee had requested the Bank to prepare for its September 1986 meeting a progress report on work in the Bank's Board.

20. A full report of discussions by the World Bank's Executive Directors on the modalities of achieving a general capital increase (GCI) was presented to the Committee in September 1986. This report identified the issues to be considered, such as share allocations and voting power, the size and timing of a GCI, the anticipated increase in Bank lending commitments for fiscal year 1988 to the heavily indebted countries as well as other countries, which would significantly exceed the sustainable level of lending and thereby provide strong justification for early action on a GCI. Other issues were the adjustments in the shareholdings of the major countries through a reallocation of existing shareholdings of the industrial countries, the allocation of membership shares to protect the voting power of small members, and the question of the size of the paid-in capital.

21. Against this background, after noting the expanded needs of Bank borrowers, including the heavily indebted countries, the Committee reaffirmed its position that the lack of capital should not constrain increases in the Bank's quality lending. It was then also noted that the existing capital base of the Bank would allow a maximum lending level by the Bank of about $14.5–15 billion per year. The Committee therefore concluded at its September 1986 meeting that a substantial GCI would be required if quality lending materializes as expected, and the Bank's Executive Directors were requested to continue to pursue discussions on the modalities of a general capital increase so as to reach agreement in time to ensure that the Bank's lending program is not constrained by a lack of capital. Note was also taken of the fact that the lending program for fiscal year 1988 might exceed the sustainable level of lending on a temporary basis.

22. At its April 1987 meeting, the Committee encouraged the Bank to increase its lending program to support growth and reform programs of its borrowers. The Committee also reaffirmed the position it had taken in September 1986 that a substantial general capital increase will be required if

quality lending materializes as expected. Bank Executive Directors were again urged to continue their discussions of the modalities for a general capital increase so as to avoid any constraint in the Bank's lending program.

23. In a statement to the Committee, the Managing Director of the IMF in September 1986 delineated the Fund's role in the process of the revival of growth. First, through the exercise of its surveillance responsibilities, the Fund could contribute to the coordination of macroeconomic policies in the major industrial countries in order to promote a stable global economic environment for the pursuit of sustainable growth. Second, growth and adjustment would be supported through financial and technical assistance to developing countries in the context of sound programs and in close collaboration with the Bank. Third, the Fund would act as a catalyst for the mobilization of financial resources from other sources in support of developing countries' adjustment programs. Finally, in assisting low-income countries that face protracted balance of payments problems, the Fund, in close collaboration with the World Bank, would provide policy advice and assistance on concessional terms under the structural adjustment facility.

24. In reviewing the implications of a growth-oriented strategy, the Managing Director in April 1987 noted the key role of the strength and quality of the macroeconomic and structural policies of the developing countries. He stressed that programs needed to be designed in a medium-term framework but that there was no standard policy package; account had to be taken of individual situations. Major industrial countries have a responsibility to help establish an environment that eases the adjustment efforts of other countries. On the international level, a growth strategy required a clear commitment to open trade and continued policy coordination among major countries. Concerning the resource needs of the developing countries, the Fund had been able to assist the low-income countries through the SAF, but their requirements were such that additional concessional assistance would be needed from both multilateral and bilateral sources.

E. Market Prospects of Raw Materials

25. In their consideration of the theme "Sustaining Growth in the Developing Countries," at the April 1987 meeting the Committee discussed the impact on the developing countries of the sharp declining trend in commodity prices and of the agricultural policies of the industrial countries. The Committee noted that non-fuel commodity prices between 1980 and 1986 had reached their lowest point in real terms since the depression of the 1930s and that there was an even more dramatic fall in oil prices in 1986. A World Bank paper noted among the causes for the prevailing state of the commodity markets: slack economic conditions in industrial countries, oversupply due to past investment, a distortion in the international markets for some commodities, and finally, a secular shift in demand due to changes in taste, synthetic

substitutes, and new production processes. The background paper, as well as the *World Development Report 1986*, indicated the need for a rationalization of agricultural policies in the industrial countries. These policies caused serious burdens for poor countries seeking to increase productivity and exports and involved subsidies borne by the consumer and also by suppliers in some industrial countries. The developing countries stood to gain substantially from the liberalization of trade in tropical products.

26. In discussing the impact of industrial countries' agricultural policies on the economic prospects of the developing countries, the Committee at its April 1987 meeting also touched on the impact of the industrial policies of the developed countries. The Committee concluded that the liberalization of industrial protection warranted urgent attention. The Bank and the Fund were accordingly requested to prepare for the Committee's consideration a report on the impact of the industrial policies of the developed countries.

27. The Committee concluded at its April 1987 meeting that, while global growth would improve the prospects of commodities, multilateral institutions should assist in diversifying the developing countries' commodity export base and in offsetting temporary fluctuations in their export earnings. Accordingly, the Committee called on the World Bank and the IMF to develop options for coping with these commodity problems to be considered at a future meeting.

F. International Trade Issues

28. Following an established practice, the Committee was kept informed about developments in international trade by the Director General of GATT, Mr. Arthur Dunkel. At the September 1986 meeting, the Committee was fully briefed by the GATT Director General on the conclusions of the Special Session of the GATT Contracting Parties at Punta del Este on September 15–19, 1986 when a new round of trade negotiations—the Uruguay Round—was launched. The Director General emphasized the interaction between trade policies and efforts to improve the macroeconomic and structural environment bearing on the debt and development situation of developing countries. A trade negotiations committee had been set up to carry out the negotiations for the Uruguay Round, and the surveillance mechanism set up under this committee was expected to play an important role in reviewing the implementation of the commitments for standstills and rollbacks by governments. The Development Committee welcomed the presentation by the GATT Director General on the launching of the Uruguay Round, which was seen as a significant step in strengthening and expanding the international trading system. The Committee looked forward to the success of the new round and for the implementation of the standstill and rollback commitments for reducing protectionism.

29. The Committee was further briefed by the Director General of GATT at its April 1987 meeting, in the context of its discussion on sustaining growth in

the developing countries with a view to improving the situation of the indebted countries. The Director General placed great emphasis on the importance of trade in stimulating growth, noting that the Uruguay Round was now under way, with a Group of Negotiations on Goods reviewing the implementation of the commitments for standstills and rollbacks with the surveillance mechanism in Punta del Este now in place. Governments were encouraged not to wait for the deadline agreed to in Punta del Este for the termination of the negotiations (1990) to put into effect the improvements in trade policies which were urgently required. The importance of respected rules in the trade field for the encouragement of investment to sustain growth was emphasized as the main link between the new trade round and the growth strategies of the Bank and the Fund.

30. The Committee welcomed the inclusion of agricultural trade in the Uruguay Round of multilateral trade negotiations, particularly because of the importance to the developing countries of an appropriate policy environment for trade in agricultural products. Protectionist agricultural policies were seen as one of the causes of distortions including depressed commodity prices in the world market.

31. The Committee looked to the Uruguay Round of negotiations to achieve a greater liberalization of trade in agriculture and increased discipline in the use of subsidies for production and exports. Besides the priority attention which would be given these matters in the GATT, ministers looked to other international fora, including the OECD Ministerial Council, the Venice economic summit, and UNCTAD VII to advance rapid progress on these issues.

G. Overview of Trends in the Transfer of Resources

32. In line with the mandate of the Committee to focus on the transfer of real resources to the developing countries, at its September 1986 meeting, the Committee agreed to maintain a regular overview of developments in the transfer of resources to developing countries. At the April 1987 meeting, the World Bank presented a review of trends in resource flows to developing countries. The report indicated a continued decline in total long-term resource flows (i.e., net disbursements) and a reduction in these flows from $102.5 billion in 1981 to $51 billion in 1985, largely accounted for by declines from private financial institutions (mainly commercial banks).

33. Flows of official development assistance, although increasing somewhat between 1984 to 1985, were still below the level of 1980 in real terms. The Chairman of the Development Assistance Committee (DAC) reported that ODA from DAC member countries increased by less than 2 percent in real terms between 1984 and 1985. Net private direct investment increased slightly to $10.9 billion in 1985 from a level of $10.4 billion, but was still well below the annual average for 1981–82 of $13.6 billion. The World Bank's World

Debt Tables for 1986–87 estimated a negative net transfer of $16.1 billion in 1985 for all debtor reporting countries for public and publicly guaranteed debt-creating flows. This reflected a further deterioration from the situation in 1984 when the extent of the negative net transfers was only $350 million. Note was taken of the fact that the bulk of the negative net transfers was concentrated in several countries, largely from the heavily indebted countries. The Bank's report also noted the continuing need for substantial financial flows to low-income Asian countries.

34. The general picture of the overview of the flow of financial resources was characterized in the Bank's report as not promising, since, with few exceptions, stagnation or decline in flows was noted. In reviewing this report, the Committee concluded that a reversal of the trends indicated was important and that improved conditions to stimulate expanded flows of investments and other capital movements needed to be created in both developing and developed countries. In April 1987, the Committee agreed to hold a further discussion in September on the adequacy of resource transfers to all developing countries and requested a report on this issue to facilitate its deliberations.

35. In September 1986 the Committee, with the participation of the Chairman of the OECD Development Assistance Committee, discussed the resource needs of all the low-income countries. There was concern at the slow rate of growth of ODA flows, which remained inadequate for the needs of the low-income countries. The Committee made an appeal to donor countries to make a maximum effort to increase their ODA budgets, especially to help meet the needs of the poor countries. In this context, the value of a system of strong multilateral concessional assistance was emphasized.

H. Poverty Impact of Structural Adjustment Lending

36. The Committee had a discussion in April 1987 on the poverty impact of structural adjustment and development programs against the background of a paper prepared by the World Bank on "Protecting the Poor During Periods of Adjustment." The Bank's background paper provided evidence of a worsening in economic and social conditions in recent years in many developing countries, particularly in the heavily indebted middle-income countries and the low-income countries in Africa. The question posed was whether there were ways in which the adjustment process could be designed and/or complemented to reduce the difficulties for low-income groups. It was noted that adjustment, if pursued in the context of economic concerns with growth-oriented policies, would result in lower social costs. The Bank was therefore making major efforts to design viable growth-oriented adjustment programs, adequately supported by external resources, which would cushion the effects of the adjustment process. The Bank would help governments design adjustment programs that target social expenditures so as to protect the poor as far as possible. For low-income African countries the social costs of adjustment are

linked to pervasive poverty problems. Consequently, poverty alleviation and economic growth are seen as the most effective ways by the Bank to help the poor deal with the social costs of adjustment.

37. The increasing poverty trends and deteriorating social conditions in many developing countries led to expressions of concern by the Committee at its April meeting. Not only was it important that the design and implementation of policy reform programs should protect the poor, but increased capital flows and a more targeted use of resources to alleviate their plight seemed essential. The initiatives taken by the Bank in this field were welcomed, as well as the proposal to strengthen the support for nongovernmental organizations (NGOs) participating in these programs. The Committee looked forward to another discussion on the subject with further work by the Bank and the Fund.

I. Environment, Growth, and Development

38. The Committee considered the subject of environment, growth, and development against the background of a paper prepared by the World Bank on the subject. The paper underlined concern about the adequate management of natural resources in both developed and developing countries. Environmental degradation threatened the sustainability of development, especially in poor countries heavily dependent on an eroding base in natural resources. The promotion of growth, the alleviation of poverty, and the protection of the environment were mutually supportive objectives, but it was recognized that countries and international agencies often have difficult choices to make as different goals are pursued. There are sometimes conflicts between environmental and other objectives, particularly in poor countries where the priorities to avoid pollution or degradation of the environment could not be expected to be the highest. Governments needed to give greater attention to natural resource management when developing national policies.

39. The paper indicated that the World Bank would be prepared to assist borrowers integrate natural resource management in decision making. The Bank would itself seek to ensure that environmental safeguards are included in its projects and to invest in projects intended to protect and enhance the environment, alleviate poverty, and promote growth. The Bank report indicated that appropriate adjustments would be made in the Bank's organization and staff dealing with environmental aspects of projects and policies and that the Bank would work with NGOs and appropriate international organizations on these matters.

40. In April 1987, members welcomed the initiatives taken by the Bank in the environmental field but felt that further work had yet to be undertaken. The Bank was accordingly requested to report again to the Committee on the Bank's environment program. The Report of the World Commission on Environment and Development shortly to be published was also expected to

benefit the Committee in its further discussion on this subject. In their discussions, members generally stressed the importance of environmental protection in the pursuit of growth and development objectives. These objectives were often mutually reinforcing, since poverty was a major cause of environmental degradation suffered by the poorest members of society.

J. Working Group Report on the Position of Executive Secretary

41. The April 1987 meeting of the Committee established a working group of six members—Canada, France, The Gambia, India, Mexico, and the Netherlands—to review the role, responsibilities, reporting relationships, and resources required by the Executive Secretary to perform the duties required of him in service to the Chairman and the Committee. The meeting also agreed that the appointment of the Executive Secretary, which should have taken place in April 1987, should be deferred until September 1987 and that the present incumbent should be requested to continue in office until a new Executive Secretary was elected. The working group under the chairmanship of a representative from Canada presented its report to the Chairman on June 2, 1987. In accordance with the procedures laid down at the April 1987 meeting of the Committee, the report was transmitted by the Chairman with his comments to the President of the Bank and the Managing Director of the Fund on June 5, 1987 for the consideration of their respective Boards sitting as Committees of the Whole. The report and its recommendations were endorsed by the Executive Directors of the Bank at their meeting on June 25, 1987 and by the Executive Directors of the Fund on June 29, 1987, taking into account the Chairman's comments. On July 2, 1987 the Chairman circulated to members the report and its recommendations, which were approved on a no-objection basis on July 20, 1987.

Annexes

A. Members of the Committee
B. Observers to the Committee
C. Text of Parallel IBRD and IMF Resolutions Establishing the Development Committee (see *Summary Proceedings, 1975*, pages 278–82)
D. Agendas and Press Communiqués of Meetings Held in September and October 1986 and April 1987.

Annex A

Members of the Committee

Member	*Countries*
1. His Excellency Sheikh Mohammad Abalkhail Minister of Finance and National Economy Saudi Arabia	Saudi Arabia
2. His Excellency Ibrahim Abdul Karim Minister of Finance and National Economy Bahrain	Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Pakistan, Qatar, Syrian Arab Republic, United Arab Emirates, Yemen Arab Republic
3. His Excellency Luis Alva Castro President of the Council of Ministers and Minister of Economy and Finance Peru	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay
4. The Honorable James A. Baker III Secretary of the Treasury United States	United States
5. His Excellency Edouard Balladur Minister of Economy, Finance and Privatization France	France
6. His Excellency Mohamed Berrada Minister of Finance Morocco	Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Tunisia, People's Democratic Republic of Yemen
7. The Honorable B.T.G. Chidzero[1] Minister of Finance, Economic Planning and Development Zimbabwe	Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Mozambique, Nigeria, Seychelles, Sierra Leone, Sudan, Swaziland, Tanzania, Trinidad and Tobago, Uganda, Zambia, Zimbabwe

[1] The Honorable Sheriff S. Sisay, Minister of Finance and Trade, The Gambia, served as Alternate Member to permit the Honorable B.T.G. Chidzero to serve as Chairman of the April 10, 1987 Meeting.

Member	*Countries*
8. His Excellency Domingo Cordovez[2] Minister of Finance and Public Credit Ecuador	Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Philippines
9. His Excellency Mark Eyskens Minister of Finance Belgium	Austria, Belgium, Hungary, Luxembourg, Turkey
10. The Honorable Giovanni Goria Minister of the Treasury Italy	Greece, Italy, Malta, Portugal
11. The Honorable Paul J. Keating, M.P. Treasurer Australia	Australia, Kiribati, Korea, New Zealand, Papua New Guinea, Solomon Islands, Vanuatu, Western Samoa
12. His Excellency Hans Klein Federal Minister for Economic Cooperation Germany	Federal Republic of Germany
13. His Excellency Abdoulaye Koné Minister of Economy and Finance Côte d'Ivoire	Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Principe, Senegal, Somalia, Togo, Zaïre
14. The Right Honorable Nigel Lawson, M.P. Chancellor of the Exchequer United Kingdom	United Kingdom
15. His Excellency Kiichi Miyazawa Minister of Finance Japan	Japan

[2] His Excellency Rodrigo Espinosa Bermeo became Minister of Finance and Public Credit of Ecuador in June 1987.

Member	*Countries*
16. His Excellency Gustavo Petricioli Secretary of Finance and Public Credit Mexico	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Spain, Suriname, Venezuela
17. His Excellency H.O. Ruding Minister of Finance Netherlands	Cyprus, Israel, Netherlands, Romania, Yugoslavia
18. His Excellency Suthee Singhasaneh Minister of Finance Thailand	Burma, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, Tonga, Viet Nam
19. The Honorable S. Venkitaramanan Finance Secretary India	Bangladesh, Bhutan, India, Sri Lanka
20. His Excellency Pekka Vennamo Minister, Ministry of Finance Finland	Denmark, Finland, Iceland, Norway, Sweden
21. His Excellency Wang Bingqian State Counselor and Minister of Finance China	China
22. The Honorable Michael H. Wilson Minister of Finance Canada	Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent

Annex B

Observers to the Committee

African Development Bank
Arab Bank for Economic Development in Africa
Arab Fund for Economic and Social Development
Asian Development Bank
Commission of the European Communities
Commonwealth Secretariat
Development Assistance Committee
European Investment Bank
General Agreement on Tariffs and Trade
Inter-American Development Bank
International Fund for Agricultural Development
Islamic Development Bank
OPEC Fund for International Development
Organization for Economic Cooperation and Development
Government of Switzerland
United Nations
United Nations Conference on Trade and Development
United Nations Development Program

Annex C

The text of the parallel IBRD and IMF Resolutions establishing the Development Committee is reproduced in the *Summary Proceedings, 1975*, pages 278–82.

Annex D

Agendas and Press Communiqués of Meetings
Held in September and October 1986 and April 1987

Meeting of September 29, 1986

A. Agenda

1. Revival of Growth and the Role of the World Bank and the Fund

—Review of progress in heavily indebted middle-income countries

—Further actions needed to revive growth in these countries

—Review of the World Bank's overall lending program in relation to the continued adequacy of the World Bank's capital, including the need for a general capital increase.

2. Review of

—Prospects for capital flows, particularly official development assistance, and their relation to growth and adjustment in low-income courtries

—Recent sub-Saharan African developments

—Aid coordination in sub-Saharan Africa.

3. Progress Reports

—Eighth replenishment of IDA

—Report on the Convention establishing the Multilateral Investment Guarantee Agency (MIGA).

4. Annual Report of the Committee

5. Other Business

B. Press Communiqué (text published in *Summary Proceedings, 1986*, pages 316–21).

Meeting of October 2, 1986

A. Agenda

1. Adoption of Provisional Agenda

2. Selection of Chairman

3. Press Announcement

4. Other Business

B. Press Announcement (text published in *Summary Proceedings, 1986*, page 322).

Meeting of April 10, 1987

A. Agenda

1. Sustaining Growth in Developing Countries

—Implementaton of growth-oriented programs

—Poverty impact of structural adjustment and development programs

—Market prospects of raw materials, including consideration of the impact of industrial countries' agricultural policies on developing countries' economic prospects

—Overview of trends in the transfer of resources.

2. Environment, Growth, and Development

3. Progress Reports

—Current international trade issues

—World Bank general capital increase (GCI), IDA, and MIGA.

4. Appointment of Executive Secretary

5. Other Business

B. Press Communiqué

1. The Development Committee held its thirty-first meeting in Washington, D.C., on April 10, 1987, under the chairmanship of the Honorable B.T.G. Chidzero, Minister of Finance, Economic Planning and Development of Zimbabwe. Mr. Barber B. Conable, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, and Mr. Fritz Fischer, Executive Secretary of the Development Committee, participated in the meeting. Mr. Svetozar Rikanovic, Chairman of the Group of Twenty-Four, also took part in the meeting. Observers from a number of international and regional organizations and Switzerland also attended. The Members of the Committee were pleased to welcome Mr. Camdessus who was present for the first time as Managing Director and wished him all success in the important and demanding tasks he had assumed.

2. The Committee focused attention on how growth in developing countries could be sustained and enhanced at a time of depressed commodity prices, sluggish growth in the industrial countries, and the uncertain prospects for increased external financial flows. Members re-emphasized that only through concerted efforts by developed and developing countries could prospects for stimulating and sustaining growth for developing countries be significantly improved. A more promising outlook for growth is important to secure and maintain public support for adjustment efforts.

3. Members noted that many heavily indebted middle-income countries have pursued strong adjustment programs in efforts to achieve growth, improve living standards, and strengthen their external payments position. For a number of countries, this proved to be a very difficult task, in view of the adverse shift in the terms of trade and the reluctance of commercial banks to provide the required flows. While the process of adjustment with growth has been fostered since the launching of Secretary Baker's initiative in 1985, the Committee noted that difficult problems still remain. To resolve these problems, the Committee stressed that all parties—the commercial banks, creditor governments, and debtor countries—should play their part. The Committee reasserted the central role of the Bank and the Fund in the promotion of growth-oriented adjustment programs and the mobilization of resources from official and private sources. It requested the Bank and the Fund to continue to

examine additional measures to refine and strengthen the implementation of growth-oriented programs and submit a report with possible recommendations for consideration at a future meeting of the Committee.

4. Ministers reiterated their commitment to support the low-income countries in their development and adjustment efforts. They recognized that many of these countries, especially sub-Saharan Africa, face severe problems of indebtedness. Ministers stressed the need for larger concessional flows and agreed that for many of these countries additional measures were needed to improve their capacity to service their debts and at the same time undertake growth-oriented programs. In this connection, the Committee welcomed the intentions of the official creditors in the Paris Club to work toward realistic rescheduling terms for the poorest nations undertaking strong growth-oriented adjustment programs. The Bank and the Fund were asked to make proposals of action, at its next meeting, to address the problems of countries facing exceptional difficulties, which should also take into account the assessment of the implementation of the United Nations Program of Action for African Economic Recovery and Development.

5. The industrial countries need to broaden the range of resource flows to developing countries, notably through export earnings of the latter countries, which can make a significant contribution toward meeting debt service and stimulating growth. An appropriate policy environment for trade in agricultural products is of particular importance to developing countries. Ministers identified protectionist agricultural policies as a major cause of distortions including depressed commodity prices on the world markets, surplus production, and budgetary drain. Recognizing that these conditions have made development efforts of many developing countries more difficult, the Committee emphasized that open and unencumbered international agricultural trade and the reduction of domestic support would foster development efforts and promote the adjustment process.

6. Members emphasized the responsibility of industrial as well as developing nations to implement growth-oriented policies so that both could resist protectionism and benefit from an open trading system. In this context, Ministers welcomed the inclusion of agricultural trade in the Uruguay Round of multilateral trade negotiations and looked to these negotiations to achieve greater liberalization of trade in agriculture and increased discipline on the use of all direct and indirect subsidies to production and exports. The Committee also felt that the liberalization of industrial protection warranted urgent attention and requested the Bank and the Fund to prepare a report on the impact of the industrial policies of the developed countries. The Committee was informed by the GATT Director General of current developments in international trade negotiations and noted governments' commitments to halt and reverse the escalation of protectionism. Ministers hoped that rapid progress would be made in actions requiring priority attention in the GATT and in other

international fora, including the OECD Ministerial Council Meeting, Venice economic summit, and UNCTAD VII.

7. The Committee reviewed the depressed state of international commodity markets as well as the unfavorable prospects for any substantial improvement for most commodities. It recognized that an acceleration of global growth would improve the prospects for commodities and that actions are required on many fronts, including the assistance of the multilateral institutions, to broaden the export base of countries dependent on commodities and to offset temporary fluctuations in their export earnings. The World Bank in cooperation with the Fund should prepare options for the next meeting of the Committee.

8. The Committee noted declining trends in capital flows to developing countries and stressed the importance and urgency of reversing this trend. The decline has been particularly significant in the case of flows from commercial banks. Private investment flows remain disappointing. Improved conditions to stimulate expanded flows of private investment and other capital movements need to be created in both developing and developed countries. The IFC should play a helpful complementary role in this area.

9. Multilateral financial institutions should continue to strengthen their efforts to support the growth and adjustment process. The Committee welcomed the recent agreement on a $12.4 billion IDA-VIII replenishment and commended the group of IDA donor countries which had made the agreement possible as such concessional flows were critical to support adjustment, growth, and poverty alleviation in low-income countries. The Committee urged early approval by the IDA Board of Governors of the IDA-VIII Resolution. The Committee noted the efforts of the Bank and the Fund to assist low-income countries in implementing programs to foster growth and strengthen the balance of payments by providing concessional loans supported by IDA resources and the newly established structural adjustment facility (SAF). Ministers stressed that larger resources would be needed to complement both SAF and IDA programs to support policies and programs for higher growth in low-income countries. Ministers were asked to review at a future meeting ongoing efforts of the Bank, the Fund, and bilateral agencies designed to assist the poorest countries to implement growth programs.

10. In response to the needs of Bank borrowers, the Bank was encouraged to increase its lending programs to support growth and reform efforts. The Committee reiterated the call on the Bank last September to maintain the momentum of the reform effort and to permit the growth in the IBRD lending envisaged for the period through fiscal year 1990, the Committee agreed that a substantial general capital increase (GCI) will be required if quality lending materializes as expected. The Committee urged the Bank's Executive Directors to continue their discussions of GCI modalities to permit agreement on a proposal for a general capital increase as needed to ensure that the Bank's

lending program is not constrained by the availability of capital. In this context, Members of the Committee recognized that, should quality lending materialize as projected, it is possible that the program for fiscal year 1988 might exceed the sustainable lending limit on a temporary basis.

11. The Committee agreed to discuss, in September, the adequacy of resource transfers to all developing countries to enhance the momentum of their development. The Committee requested a report on this issue to facilitate its deliberations.

12. The Committee expressed concern at increasing poverty trends and deteriorating social conditions in many developing countries. Ministers urged that in the design and implementation of policy reforms, governments and international institutions should give special attention to protecting the most vulnerable groups. Members agreed that increased flows and more targeted use of resources, both external and domestic, would help to alleviate the plight of the poor in the process of adjustment. Members highlighted the importance of increased investments in the poverty alleviation programs and welcomed recent Bank initiatives to impart a greater poverty focus in its operations and to strengthen support for nongovernmental organizations' humanitarian aid programs. The Committee agreed to have a broader discussion of this subject at a future meeting on the basis of further work by the Bank and the Fund.

13. The Committee stressed the importance of environmental protection in pursuing growth and development objectives. Members emphasized that the pursuit of these objectives is often mutually reinforcing, for poverty is a major cause of environmental damage and it is typically the poorest members of society that suffer most from environmental degradation. The Committee welcomed the Bank's current initiatives at increasing emphasis on environmental protection in its lending and helping borrowers to integrate natural resource management into the planning and implementation of their development activities. The Committee felt that further work needed to be undertaken in the light of its discussions. In this context, the Committee looked forward to a further report by the President of the Bank at its next meeting and hoped to benefit from the findings of the World Commission on Environment and Development whose report would be published soon.

14. The Committee agreed to meet again in Washington, D.C. on September 28, 1987.

RESOLUTIONS

Resolution No. 42-1

Direct Remuneration of Executive Directors
and Their Alternates

Pursuant to Section 14(e) of the By-Laws, the 1987 Joint Committee on the Remuneration of Executive Directors and their Alternates on June 11, 1987 directed the Secretary of the Fund to transmit its report and recommendations to the Board of Governors of the Fund. The Committee's report contained the following proposed Resolution for adoption by the Board of Governors.

In accordance with Section 13 of the By-Laws, the Executive Board on June 22, 1987 requested the Governors to vote without meeting on the above-mentioned Resolution which was submitted to them on June 22, 1987:

RESOLVED:

That, effective July 1, 1987, the annual rates of remuneration of Executive Directors of the Fund and their Alternates pursuant to Section 14(e) of the By-Laws shall be as follows:

(i) As salary, $82,000 per year for Executive Directors and $68,600 per year for their Alternates;

(ii) As supplemental allowance (for expenses, including housing and entertainment expenses, except those specified in Section 14(f) of the By-Laws), $9,000 per year for Executive Directors and $7,200 per year for their Alternates.

The Board of Governors adopted the foregoing Resolution, effective July 31, 1987.

Resolution No. 42-2

Forthcoming Annual Meetings

The Executive Board decided on July 29, 1987 that action in connection with the places and dates of forthcoming Annual Meetings from 1991 through 1993 should not be postponed until the next regular meeting of the Board of Governors.

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on July 31, 1987 for a vote without meeting:

RESOLVED:

That the invitation of the Government of Thailand to hold the Annual Meetings in Bangkok in 1991 be accepted;

That the 1991 Annual Meetings be convened on Tuesday, October 15, 1991; and

That the 1992 and 1993 Annual Meetings be convened, respectively, on Tuesday, September 22 and September 28, in Washington, D.C.

The Board of Governors adopted the foregoing Resolution, effective September 11, 1987.

Resolution No. 42-3

Financial Statements, Report on Audit, and Administrative Budget

RESOLVED:

That the Board of Governors of the Fund considers the Report on Audit for the Financial Year ended April 30, 1987, the Financial Statements contained therein, and the Administrative Budget for the Financial Year ending April 30, 1988, and the Capital Budget for capital projects beginning in Financial Year 1988 as fulfilling the requirements of Article XII, Section 7 of the Articles of Agreement and Section 20 of the By-Laws.

The Board of Governors adopted the foregoing Resolution, effective October 1, 1987.

Interim Committee of the Board of Governors on the International Monetary System

Press Communiqué

September 28, 1987

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 macroeconomic 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 the World Bank. 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
Composition

as of September 27–28, 1987

H.O. Ruding, Chairman

Mohammad Abalkhail	Saudi Arabia
Abdul Malik A. Hamar	United Arab Emirates
Giuliano Amato	Italy
Hernán Anzola	Venezuela
James A. Baker III	United States
Edouard Balladur	France
John G. Bestman	Liberia
Luiz Carlos Bresser Pereira	Brazil
Chen Muhua[1]	China
Mark Eyskens	Belgium
Kjell-Olof Feldt	Sweden
Paul J. Keating[2]	Australia
Nigel Lawson	United Kingdom
Kiichi Miyazawa	Japan
Bader-Eddine Nouioua	Algeria
Pay Pay wa Syakassighe	Zaïre
Radius Prawiro[3]	Indonesia
H.O. Ruding[4]	Netherlands
Juan Vital Sourrouille	Argentina
Gerhard Stoltenberg	Germany, Federal Republic of
Narayan Datt Tiwari	India
Michael H. Wilson	Canada

Alternate attending for the member:

[1] Qiu Qing

[2] B.W. Fraser

[3] Arifin M. Siregar

[4] W.F. Duisenberg

Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee)

Press Communiqué

September 28, 1987

1. The Development Committee met in Washington, D.C. on September 28, 1987, under the chairmanship of the Honorable 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:

—Proposals for action for low-income countries facing exceptional difficulties, especially the seriously indebted countries in sub-Saharan Africa;

—Growth-oriented programs in the heavily indebted middle-income countries; and

—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 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

[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. 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-VIII 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 official development assistance (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 Com-

mittee 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.

Development Committee Composition

as of September 28, 1987

B.T.G. Chidzero, Chairman

Mohammad Abalkhail	Saudi Arabia
Ibrahim Abdul Karim	Bahrain
Giuliano Amato	Italy
James A. Baker III	United States
Edouard Balladur	France
Mohamed Berrada	Morocco
B.T.G. Chidzero[1]	Zimbabwe
Rodrigo Espinosa	Ecuador
Mark Eyskens[2]	Belgium
Paul J. Keating[3]	Australia
Hans Klein	Germany, Federal Republic of
Abdoulaye Koné	Côte d'Ivoire
Nigel Lawson	United Kingdom
Erkki Liikanen	Finland
Kiichi Miyazawa[4]	Japan
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Gustavo Saberbein Chevalier	Peru
Suthee Singhasaneh	Thailand
Narayan Datt Tiwari	India
Wang Bingqian[5]	China
Michael H. Wilson[6]	Canada

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[2] Yavuz Canevi (Turkey)
[3] Il Sakong (Korea)
[4] Toyoo Gyohten
[5] Chi Haibin
[6] Tom Hockin

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Hyung-Sup Shim
Joun Yung Sun
Advisers
Young-Wook Chin
Yun-Soo Cho
Joong Gie Chung
Han Do Huh
Chang-Shik Kim
Young Sup Kim
Jung-Hwan Lee
Moon-Ho Lee
Young-Hoi Lee
Young-Ki Lee
Chang-Yuel Lim
Yeung Kyun Rhee
Un-Sun Ryo

Kuwait

Governor
H.E. Jassim Mohamed Al-Kharafi
Alternate Governor
Sheikh Salem Abdulaziz Al-Sabah
Advisers
Fahed Rashid Al-Ibrahim
Mohamed Abdulmohsin Al-Mershed
Abdul Aziz Mohammad Al-Othman
Fahed Mohamed Al-Rashed
Sheikh Khaled Al-Sabah
Mohammed S. Al-Sabah
Sheikh Salem Abdullah Al-Ahmed Al-Sabah
Mustafa Jassim Al-Shemali
Mohammed Haider-Ghuloum

Lao People's Democratic Republic

Governor
Sisavath Sisane
Temporary Alternate Governor
Khamsouk Sundara
Adviser
Chanthara Sayamoungkhoun

Lebanon

Alternate Governor
Hussein Kanaan
Temporary Alternate Governor
Majeed Joumblat
Advisers
Rola Al-Cheikh
Toni Nadra al Choueiri
Ali Al-Jammal
Ibrahim Abou Ayyash
Basil Fuleihan
Toufic Gaspard
Abdul Hafiz M. Itani
Salim Kheireddine
Nassim Saliba
Nadia Shamsedin
Abbas N. Shuman
Maroun J. Tabet

Lesotho

Alternate Governor
H.E. Leshele Abel Thoahlane
Temporary Alternate Governor
Erik L. Karlsson
Advisers
Pascalis Tseliso Mafike
C.S. Molelle
E.K. Molemohi
A.M. Monyake
Lethaha Ntholi
Masupha E. Sole

Liberia

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Alternate Governor
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James Bush
H.E. Emmett Harmon
Christopher F. Konneh
John Sembe Morlu
Antoinette Monsio Sayeh
Penti Tarpeh, Jr.
H.E. Eugenia A. Wordsworth-Stevenson

Libyan Arab Jamahiriya

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Alternate Governor
Mohamed Abdurahman Maghrabi
Adviser
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Luxembourg

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Alternate Governor
Pierre Jaans
Temporary Alternate Governors
H.R.H Crown Prince Henri of Luxembourg
H.R.H Prince Guillaume of Luxembourg
Advisers
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Ernst-Guenther Broeder
Richard Ross
Guy Seyler
Jacques Silvain

Madagascar

Governor
Richard Randriamoholy
Alternate Governor
Nirina Ideal Andriamanerasoa
Advisers
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Jocelyn Rafidinarivo
Andre Rajaonah-Ratsimisetra
Robert Ramelina
Claude Rasandiriaka
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Malawi

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Malaysia

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Alternate Governor
Tan Sri Dato' Jaffar Hussein
Temporary Alternate Governor
Tun Ismail hin Mohamed Ali
Advisers
Zakaria Hamzah
Jaafar bin Ahmad
Khong Kim Nyoon
Looi Woon Leng
Nafisah Mohamed
Mohamed Tarmizi bin Tun Dr. Ismail Al-Haj
H.E. Albert S. Talalla
Zamani Abdul Ghani

Maldives

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Alternate Governor
Adam Maniku

Mali

Governor
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Alternate Governor
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Malta

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Mauritania

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Ahmed Ould Boucheiba
H.E. Abdellah Ould Daddah
Ahmed Ould Lafdal

Mauritius

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Rundheersing Bheenick
Marc Bourdet
Srikant Madan Chitnis
Jagnaden P. Coopamah
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Temporary Alternate Governors
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Pedro Aspe
Ariel Buira Seira
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Guillermo Ortiz
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Advisers
Patricio Ayala
Carlos Noriega
Hildegard Rohen Ortega
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Morocco

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Mohamed Aboulfadl
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H.E. M'Hamed Bargach
Fouad Benzakour
Thami El-Barki
Mourji Mohamed Fouzi
Hamad Hokimi
Abdellatif Jouahri
Omar Kabbaj

Mozambique

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H.E. Abdul Magid Osman
Alternate Governor
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Candida Perestrelo

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Ganesh Bahadur Thapa
Alternate Governor
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Netherlands

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Cees Maas
Temporary Alternate Governors
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D.H. Boot
Tom de Vries
Hans du Marchie Sarvaas
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Nicaragua

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Niger

Governor
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Boukari Wassalke
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Advisers
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Nigeria

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Alternate Governor
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Norway

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Oman

Governor
Abdul Wahab Khayata
Alternate Governor
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Pakistan

Governor
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Alternate Governor
Izaharul Haque
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Mueen Afzal
Moinuddin Baqai
Imtiaz Alam Hanfi
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Saeed Ahmad Qureshi

Panama

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Ana Cecilia McInnis
Jorge Mateo Milwood
Pedro Roberto Mora Rodriguez
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Reinaldo Decerega

Papua New Guinea

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Paraguay

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Oscar Estigarribia
Oscar R. Estigarribia
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Cesar Ferrari Quine
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Cesar Humberto Cabrera Cespedes
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Qatar

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Rwanda

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St. Kitts and Nevis

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St. Lucia

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St. Vincent and the Grenadines

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Hon. Herbert G. Young

São Tomé and Principe

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Bernardo Viegas Abreu

Saudi Arabia

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Omran Mohammed Al-Omran
Said Al-Qahtani
Abdulaziz R. Alrashed
Atteyah Al-Rowathi
Mohammad Abdullah Al-Shawi
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Majed Saif
Ibrahim Shams

Senegal

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Alternate Governor
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Advisers
Fatou Diagne
Ousmane Diene
Samcidine Dieng
Abdoul Aziz Diop
Ahmed El Mansour Diop
Maymouna Diop
Mohamadou Diop
Cheikh Ibrahim Fall
Ibrahima Gaye
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Silcarneyni Gueye
H.E. Falilou Kane
Seyni Loum
M.I. Mah'moud
Babacar N'Diaye
Ibou Ndiaye
Babacar Ndoye
Amadou Maleine Niang
Cheikh Tidiane Sakho
Djibril Sakho
Abdoulaye Seye
Momar Sourang
Abdourahmane Sow
Alwyn B. Taylor
Prosper Aliou Youm

Seychelles

Governor
Guy Morel
Temporary Alternate Governor
Lewis Chang-Leng

Sierra Leone

Governor
A.R. Turay
Alternate Governor
D.A.B. Minah
Advisers
George Alibahuro
Ernestus A.E. Coker
Feyi E.S. Jones-Asgill
S.M.W. Kamara
J. Sanpha Koroma
H.E. Sahr Matturi
Christian J. Smith

Singapore

Governor
Teh Kok Peng
Alternate Governor
Yeoh Lam Keong
Adviser
Hon Chee-Won

Solomon Islands

Governor
Anthony Vernon Hughes
Temporary Alternate Governor
Gane Gilakisa

Somalia

Governor
Mohamud Mohamed Nur
Alternate Governor
Mohamud Mohamed Nur
Advisers
Mohamed Hagi Ali
Ali Abdi Amalow
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Hussein Mohamud Siad

South Africa

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Hon. B.J. du Plessis
Alternate Governor
Christian Lodewyk Stals
Temporary Alternate Governor
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Advisers
E.A.N. Barnard
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Elias Links
John B. Maree
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Johan Taljaart
C. van der Walt

Spain

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Temporary Alternate Governor
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Lorenzo Gonzalez-Alonso
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Miguel Muniz
Alejandro Polanco
Jose Juan Ruiz
Luis Sempere

Sri Lanka

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Alternate Governor
Warnasena Rasaputra
Temporary Alternate Governors
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A.S. Jayawardena
Advisers
Daya Abeysekera
I. Coomaraswamy

Sudan

Governor
Ismail El Misbah Makki
Alternate Governor
Abo Zied Mohamed Salih
Advisers
Mustafa Mohamed Abdalla
Mohamed Elfatih Zein Elabdin
Agil M. Elmanan
Mohamed Khair El Zubeir
Bushra Fadlalla
Musa Ibrahim Mohmmed Idriss
Osman Ahmed Makki
Fath El Rahman Hassan Taha

Suriname

Governor
H.E. Subhas Ch. Mungra
Alternate Governor
Stanley van Weissenbruch
Adviser
Ingrid May

Swaziland

Governor
Hon. Barnabas S. Dlamini
Alternate Governor
H.B.B. Oliver, C.B.E.
Advisers
Carlton M. Dlamini
Fikile Dlamini
M. Fakudze
S.S. Kuhlase
G.T. Magagula

Sweden

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Bengt Dennis
Alternate Governor
Erik Aasbrink
Temporary Alternate Governors
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Gunnar Lund

Advisers
Bengt Ake Berg
Jorgen Holmquist
Sven-Olof Johansson
Lars Kalderen
Margareta A. Kyhlberg
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Jens Orback

Syrian Arab Republic

Governor
H.E. Muhammad Imady
Alternate Governor
Mohamed Al-Sharif
Temporary Alternate Governor
Hicham Mutewalli

Tanzania

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Thailand

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Waranat Anussorn-Nitisara
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Chakrabhand Chandanasiri
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Thanaed Sirilapyanonth
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Togo

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Alternate Governor
Bawa Sandani Mankoubi
Temporary Alternate Governors
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Tonga

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Trinidad and Tobago

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Tunisia

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Elyes Kasri
Said M'Rabet
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Turkey

Governor
H.E. I. Kaya Erdem

Turkey (continued)

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Advisers
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Hasan Sukru Binay
Sena Eken
Gazi Ercel
Bahar Sahin
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Dogan Sevim
Hikmet Ulugbay

Uganda

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United Arab Emirates

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Abdulla Osama Al Malki
Ahmed Al Shamsi
Mohamed Obaid Faris

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Adviser
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Yugoslavia

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Kalala Kabuya
Malunda ma Bonzu Kiwewa
Lendo-Muanda
Ludunge Kadahi Chiri Mwami
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Zambia

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Zimbabwe

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Salvatore Zecchini	Nikos Kyriazidis	

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GUIDE TO ADDRESSES AND STATEMENTS

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Reference List of Principal Topics Discussed[1]

[1]This list relates only to the Addresses and Statements. It excludes discussions of individual countries, tributes to the host country, and personal tributes. References are to pages.

NON-OIL DEVELOPING COUNTRIES *(continued)*

List of Abbreviations Used

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
EC	European Communities
EMS	European Monetary System
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNP	Gross national product
Group of Ten	Industrial Countries Participating in General Arrangements to Borrow (GAB)
Group of Twenty-Four	Intergovernmental Group of Twenty-Four on International Monetary Affairs
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
Interim Committee	Interim Committee on the International Monetary System
MIGA	Multilateral Investment Guarantee Agency
ODA	Official development assistance
OECD	Organization for Economic Cooperation and Development
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development

Note: Throughout the book the $ symbol refers to U.S. dollars. Other dollar currencies are identified by a preceding initial.