DISCUSSION OF FUND POLICY AT SIXTH JOINT SESSION [1]

STATEMENT BY THE GOVERNOR OF THE BANK FOR THAILAND

Sommai Hoontrakool

Where the results of the last Annual Meetings in Nairobi led us to dare to believe that the international monetary situation and its problems were capable of rational solutions, the events leading up to the present Annual Meetings have deteriorated beyond all predictions. The seriousness of the issues under consideration is no longer urgent but demands immediate international action to bring about immediate and reasonable solutions for the benefit of all concerned.

The issues facing the 1974 Annual Meetings of the Board of Governors of the Fund and Bank Group are of great significance to the welfare and stability of the world economy. The problems facing this meeting have been termed as "perhaps the most complex and serious set of economic problems to confront national governments and the international community since the end of World War II." That description seems to be the understatement of the year.

For all countries, and in particular developing countries, the recent worsening of price inflation in developed economies, an unprecedented increase in petroleum prices, and a sharp decline in the transfer of resources and capital assistance in absolute and real terms have seriously and undeniably set back economic and social growth and development for untold millions. If the situation for industrial countries is as Mr. Witteveen has stated that "short-term growth trends in the industrial economies prove to be weaker than expected," the future of developing

[1] October 3, 1974.

countries, then, is grim indeed; attainment of even a minimum growth rate would be no small achievement if indeed we can maintain our economies at the present level which we have already achieved over a decade.

While it may seem that the problems are not yet of catastrophic proportions in the near term, the long-run impact on the developing economies must be taken into full account to avoid a polarization effect at the expense of international cooperation leading toward the attainment of social equity and peace in the community of nations.

In light of recent developments in the international monetary situation, a problem of immediate concern comes to mind. The spiraling trend of interest rates due to inflation and the oil crisis will have serious impacts on the debt burden of developing countries in addition to an effective slowdown or a decline in capital aid assistance in real terms. For Thailand, while recent economic performance has been satisfactory, in particular a strong demand position for traditional commodities has somewhat offset the import price increases, the need for a continuing substantial inflow of loans and capital assistance on acceptable terms to achieve the desired level of economic and social progress is an immediate concern.

Toward fulfillment of the already scaled-down targets of Thailand's Third National Economic and Social Development Plan, a substantial increase in the inflow of external assistance in the form of capital aid loans will be required. It is our hope, and I am sure the hope of all developing countries, that the level of loans and aid be increased in real terms, which would help offset the impact of price inflation. . . .

Increasing the flow of capital assistance and aid in a meaningful way is only the first step. It is with this view that we support the establishment of the Committee on the Transfer of Real Resources to Developing Countries. We would strongly urge that the terms of such transfers be consistent with the goals stipulated in the relevant declarations of UNCTAD III. . . .

I do not need to stress that the problems facing the developing countries and indeed the developed world are of immense proportions. We do not expect immediate action by all concerned to bring about the necessary solutions to all our problems in these next few days of the

Annual Meeting. We do, however, expect that through concerted international action effective solutions will be found and, more important, be implemented. It is our hope and our pledge that we shall be prepared to play our part in bringing about this goal.

Statement by the Head of Delegation and Temporary Alternate Governor of the Fund and Bank for Afghanistan

Abdullah Malikyar

I have the honor to address the Annual Meetings of the World Bank and International Monetary Fund as the representative of the Republic of Afghanistan. Also, I avail myself of this opportunity to express the thanks of Afghanistan's delegation to the Government of the United States for hosting and extending facilities to the meetings and our cordial appreciation to Mr. Witteveen and Mr. McNamara for their untiring efforts and endeavors to help us maintain a sound monetary and financial order.

In the past two years, inflation has taken a serious and acute form that threatens the world economy. In the developing countries this has caused unprecedented hardship and has brought their economic growth to a standstill and has further deteriorated their standard of living.

I share the views of other distinguished speakers for a concerted international effort in combating this world-wide enemy. I can assure my fellow Governors that the Government of the Republic of Afghanistan will cooperate in all international undertakings to bring about a stable economic order. Our Government has taken necessary action to prevent sharp price increases, and probably our country has the lowest rate of inflation at the present time. I am sure we all agree that no one country can combat inflation merely by its own actions or policies. Economic interdependence requires that a concerted and well-coordinated effort, on a major international scale, is essential for eliminating the causes of inflation. I hope that these efforts will also lead to a solution of world energy problems and commodity shortages.

In this connection, I appreciate measures taken by the Fund for providing timely help to member countries under the oil facility and the

extended Fund facility. But these short-term and temporary measures do not provide adequate or sufficient solutions to the immense problems challenging us and many other developing countries. Moreover, a high debt-service burden does not allow many developing countries to use credits at present rates of interest for the use of these facilities. It is essential that resources be made available to the developing countries on more concessionary terms. I hope that the Fund and the World Bank will coordinate their efforts to help their least privileged members in these difficult times, particularly those handicapped by their geographical location. Landlocked member countries especially suffer unjustified disruptions in their trade and deserve our special consideration.

In the field of trade, due to the above-mentioned factors, developing countries are facing certain setbacks. Therefore, it is necessary to create prerequisites and to bring about stability in the price of primary commodities, which constitute 75 per cent of the total export value of the developing and least developed countries.

The international economy is still in shock at the dramatic realization, perhaps accidentally achieved, of the appropriate value of oil. Less destabilizing means must be found for the realization of equitable prices for other primary commodities. It is disturbing that the industrialized countries already look to some relief from their inflationary problems by a return of commodities to what are regarded as more normal prices. But the historical terms of trade in this respect have been inequitable and we welcome the recommendation of the Committee of Twenty for the undertaking of further work on commodity regulation and price stabilization. In this regard, more appropriate measures need be undertaken to alleviate the immediate needs and pressing financial requirements of developing countries and thus help them toward self-sustaining growth.

We are pleased that the international community has shown a greater awareness of the particular problems of the least developed countries. Indeed, other distinguished delegates and Mr. Witteveen and Mr. McNamara in their statements have advocated greater attention to the needs of these countries.

Afghanistan's development strategy, under the wise leadership of our President, is aimed at benefiting the majority of the population of

Afghanistan, through carrying out fundamental and structural reforms based on social justice and through enhancing public development programs and private initiative, the overall purpose of which is the maximum development of our national economy. We hope that the Fund and the World Bank might be able to assist us in our efforts through their great financial and technical resources.

We have appreciated the contributions of the Fund and the World Bank in the past, and I hope that recent initiatives in the field of monetary reform and transfer of resources to the developing countries will bear fruit in the very near future. I especially welcome the establishment of the joint Development Committee, which will have the primary task of seeking ways to expedite and increase the flow of real resources to the developing countries. The Committee of Twenty, under very difficult conditions, made some significant progress in the area of monetary reform, and I hope the Interim Committee will pave the way, as soon as possible, for fundamental reforms so that member countries can proceed with their development under more stable conditions.

We believe that, in view of the real economic limitations of the least developed countries, their escalating debt payments should be rescheduled on a realistic basis, taking into account their existing economic and social conditions. Appropriate and immediate measures should be taken to alleviate the great pressure of debt servicing which, in the case of Afghanistan, constitutes about a third of the total foreign exchange earnings. Based on the principle of recognizing debt relief as a legitimate form of aid, some of the measures to be taken could include unconditional grants, long-term soft loans, extension of grace periods, and subsidization or reduction of interest rates.

The Republic of Afghanistan attaches much significance to unconditional technical and economic cooperation with friendly countries and international organizations and, moreover, has the conviction that attention should also be given to nonproject assistance, and my delegation wholeheartedly endorses the establishment of a link between the allocation of special drawing rights and development financing.

Statement by the Governor of the Fund for South Africa

Nicolaas Diederichs

I wish to congratulate the Executive Directors of the Fund on the Annual Report which is before us. It is a frank and realistic document, and it paints a grim picture of rampant inflation, recessionary trends, and acute balance of payments disequilibrium.

These are not matters of merely intellectual concern. As Mr. McNamara described so graphically in his opening address, the gravity of the international economic situation spells real economic hardship to many millions of people. For some developing countries, the balance of payments problem arising from increased oil prices seems to be of such a magnitude as to be virtually insoluble. A number of developing countries are also suffering severely from natural disasters, and here I think particularly of the drought-stricken countries of Sudano-Sahelian Africa.

Clearly, both the Bank and the Fund are faced with a gigantic task. As regards the Bank, those countries which are more fortunately situated should certainly heed Mr. McNamara's call.

My own country is fortunate in that its economy is growing rapidly, while its current balance of payments has not been unduly affected by the increase in oil prices. In this favorable situation our first duty has been to accelerate the development of the less developed territories within our own borders. At least one of these territories is now approaching independence and others will no doubt follow. We regard it as important that these territories should also attain economic viability. Our Government is substantially increasing its expenditure on their infrastructure and other development projects. While this must represent the first call on our development aid, however, I am glad to say that we have found it possible to expand our development assistance beyond our borders. Apart from the trebling of our IDA contributions which I announced last year, we have also advanced certain payments and substantially increased our subscription to the World Bank. We are further extending our assistance to the drought-stricken countries of Africa.

For the Fund, the primary responsibility is to attack without delay the grave problems of inflation, potential stagnation, and payments imbalance which the Annual Report so eloquently describes.

Apart from the Annual Report, we also have before us the report of the Committee of Twenty and the composite resolution. In many respects these latter documents appear to me, regrettably, to lack the realism of the former. We should not deceive ourselves on this matter; the gravity of the present situation demands a frank recognition of the facts. These are, first, that the international financial situation deteriorated drastically during the period that the Committee of Twenty was at work, and that this deterioration was by no means solely due to, though it was aggravated by, the oil crisis; second, that the general scheme of reform which evolved from the Committee's deliberations clearly bore little relation to the real problems of world finance which were emerging and offered little immediate assistance in their solution; and third, that there was and still is a serious measure of disagreement between important countries and groups of countries on many important aspects of monetary reform. We do no service to the world or to the cause of a better monetary system if we try to disguise the fact that this effort at international monetary reform has not been successful, or if we attempt to blame this lack of progress on the oil crisis alone. Fundamentally, I think that the disappointing outcome of this effort was due, on the one hand, to the rigidity with which, at times, some important aspects of reform were approached and, on the other, to the unrealistic and overambitious nature of some of the reform proposals seriously considered by the Committee.

Certain parts of the composite resolution will, I believe, command general agreement, at least in principle. Here I refer specifically to the resolutions on the establishment of an Interim Committee of the Board of Governors, on the establishment of a Joint Ministerial Committee on the Transfer of Real Resources to Developing Countries, and on the General Review of Quotas. Other parts, however, are open to challenge. They represent, in effect, extracts from the proposed reform which are now submitted for immediate adoption. But it is clearly difficult to present a satisfactory and balanced program of reform in this way.

In fact, the composite resolution suffers, in my view, from a lack of balance. It has much to say on the adjustment process but nothing on convertibility or asset settlement, and in this as in other respects it seems to give undue weight to one particular standpoint with little or no recognition of other more widely held views.

On global liquidity it is extremely weak, especially in relation to official currency holdings. A major share of the blame for our present troubles must, after all, be borne by the tremendous rise in these holdings, by their inflationary effect, and by their uncertain value. Exchange rate fluctuations continue to affect their value as financial assets, and persistent inflation undermines their value relative to real resources. Yet all that the resolution has to say is that the Fund "shall periodically review the aggregate volume of official currency holdings" and, if they are judged to show an excessive increase, "shall consider with the members concerned what steps might be taken to secure an orderly reduction." It is not difficult to imagine what limited effect any action on these lines would have had on the real problems of imbalance in recent years.

I fear that the resolution holds out little hope of a solution for the problems which now confront us. On the contrary, the manner in which some parts of the resolution may be implemented may in fact be counterproductive and may add to our present difficulties.

In this connection I would refer to paragraph 5 of the fourth resolution where the Fund is directed to give further study to arrangements for gold. I have often in the past pointed to the need for such study and am naturally gratified that this is now generally accepted. Of course, views on the future monetary role of gold still differ—this is evident not only from the Outline of Reform of the Committee of Twenty but also from the speeches made at this meeting by Governors during the past few days. My own views on gold are well known in this assembly and I do not intend to repeat them now. But I do wish to join the Governors for France and Italy in stressing the urgency in present circumstances of adopting realistic arrangements for the use of gold as a monetary asset by monetary authorities. In passing, I also wish to comment on the proposals which have been put forward providing for sales of gold by the Fund on the private market and for the virtual elimination of gold from the Articles of Agreement of the Fund.

It is difficult to see rational justification for such proposals which, at this grave moment of monetary history when the world is crying out for financial stability, seek to remove from the Articles, and to divest the Fund itself, of the one reserve asset which commands the greatest and most widespread confidence. If, however, such proposals were seriously

entertained, it would not be bad for gold—which would continue to command confidence—but it would be extremely bad for international financial stability. It would not be bad for gold because such actions would be likely to strengthen, rather than weaken, the confidence in gold relative to other monetary instruments. It would be bad for financial stability because it would not only place the burden of supporting the international financial structure on a relatively untried asset, the SDR, but also further undermine confidence in official monetary arrangements generally. It would also be bad for the image and credibility of the Fund which, uniquely among financial institutions, would be called on to dispossess itself of its most desirable asset, while failing to apply a true valuation of that asset.

It follows from what I have said that in my view the effective liquidity of the Fund would be seriously weakened in the critical period ahead by any significant decline in its existing gold holdings. If, however, the Fund is to obtain currencies by the sale of gold, it seems improper for the Fund as an intergovernmental institution to bypass its members in so important a matter by obtaining their currencies through operations in private markets rather than through sales to members. If the proposals had provided for such transactions with members, they would have seemed less inconsistent with normal Fund policy and procedure. A recognition of some important and fundamental facts relating to gold, rather than radical experimentation and overingenious schemes, would be more in accordance with the needs of the sorely troubled international monetary system.

Surely at this time, and whatever one's view on the ultimate monetary role of gold, it is more important to recognize the present reality, namely, that gold is an important monetary asset which commands confidence. Rather than attempt to pursue a doctrinaire belief in the elimination of gold as a monetary asset—a matter on which there was certainly no agreement in the Committee of Twenty—surely the Fund should at this time rather seek to secure the optimum use of official gold holdings. This could be achieved, I believe, whatever decisions may ultimately be taken on the role of gold in a reformed system, by adopting arrangements similar to those proposed in the so-called third approach in paragraph 28 of the Outline of Reform, whereby monetary authorities would be free to deal in gold with one another at mutually acceptable prices and to buy and sell gold in the market. The right to buy is,

I believe, essential, as the experience of recent months shows that monetary authorities are most reluctant to sell, even in a situation of acute need, if they do not have the prospect of replenishing their gold holdings again at some future time. Prohibitions on the right to buy gold reflect a clear lack of confidence in the ability of other reserve assets to stand comparison with gold.

I believe very strongly that the Fund should at this time concentrate on the immediate and critical problems confronting us. These problems will certainly demand our utmost efforts. As the Annual Report points out, we shall have to steer a difficult course between the curbing of inflation and the creation of conditions leading to severe recession and stagnation. Doubtless the exact course will have to be plotted for each country according to its particular situation. The Annual Report sets out, I think correctly, the broad lines of policy, but I believe the Fund can usefully help in adapting this to particular situations and especially in dealing with international factors which contribute to instability.

There is no doubt in my mind that international monetary permissiveness has contributed in no small degree to the present world inflation. In international as in national economic affairs there can be no substitute for discipline. At Copenhagen four years ago I and many other Governors stressed this point. Subsequent events showed that we failed in our endeavors to achieve monetary stability. Success will not be easier now, but it can be achieved if we concentrate our efforts on the immediate problem and if we accept the need for cooperation and discipline. The consequences of failure would be grave indeed.

Statement by the Governor of the Bank for Nepal

Bhekh B. Thapa

It is a matter of pleasure for me to represent my country once again in this meeting of the International Monetary Fund and the World Bank Group. I welcome this opportunity of renewing contacts with many of the distinguished delegates and making new acquaintances as well. May I also take this opportunity to express sincere gratitude to the President of the United States, Mr. Gerald Ford, for his precise and meaningful address to this assembly.

Being one of the last speakers, I have had the benefit of listening to the enlightening speeches of most of the delegations on the current awesome monetary and economic situation obtaining both in the developing as well as the developed countries. The addresses of the Chairman, Mr. Konan Bédié, Managing Director, Mr. Witteveen, and President, Mr. McNamara, also dwelt most explicitly on the subject and put forth most pertinent suggestions. As one of the least developed countries concerned with the problems confronting our development efforts, we are much impressed with Mr. Witteveen's excellent analysis of the international economic situation, and Mr. McNamara's exposition of the lot of the poorest section of humanity and the appeal he made to the developed countries for taking more interest in helping them. I offer my sincere congratulations to them for their unswerving efforts for the cause that we all cherish so dearly. I am confident that their appeal will not go unheeded.

First, I would like to dwell briefly on the monetary situation in general. Since we met in Nairobi last year, the world has had to face a host of problems arising from the persisting world-wide inflation and the oil crisis which further complicated the problems. This has upset monetary balance globally and has also added a significant burden in the management of our own national economies.

The present-day international monetary situation is beset with the most complex and serious set of economic problems—a phenomenon of virulent and widespread inflation accompanied by a deceleration in growth and a massive disequilibrium in balance of payments. The crushing burden of this difficult situation falls most of all on the developing and the least developed countries. While it may mean a lowering of the high standard of living and a foregoing of a few luxuries for the developed countries, it is a matter of life and death to us in the developing nations. The present situation, on the one hand, requires the concerted efforts of all of us in the developing and the developed countries in containing inflation and, on the other hand, has necessitated a massive flow of resources to the developing countries.

In this connection, I should like to welcome the suggestions made by the distinguished Governor for the United Kingdom, for establishing a new facility in the IMF for the investment of the petro-dollars. This would not only help in the orderly recycling of the petro-dollar sur-

pluses but would also enable the developed countries to maintain and increase their flow of official development assistance to the developing countries. However, the present oil facility should not only be continued but also considerably augmented in order to enable the Fund to lend to the developing countries at concessionary terms. This can be done only when all of us agree to confer upon the Fund the authority to draw, on the basis of a commonly agreed formula, from the reserves of those countries which have surpluses far beyond their needs. Similar arrangements have to be made to recycle resources through the World Bank Group. This would involve subordinating a small portion of our interests to the larger welfare of the world community—both the developing and the developed—and of the smooth functioning of our economic system. We welcome the splendid efforts made by Mr. Witteveen and Mr. McNamara to cope with the present difficult situation. They deserve our sincere thanks. We also welcome the initiative taken in this regard by Iran and urge the early implementation of its proposals, if possible on a much larger scale. This, I hope, will go a long way toward more equitable distribution of international liquidity and can be taken as a correct step toward solving the present international impasse.

The Outline of Reform initiated by the Committee of Twenty provides the basic framework for evolving a new international monetary order. The Outline provides for various steps to be taken up, such as the establishment of the Council and Interim Committee of the Board of Governors, guidelines for floating, trade pledge, valuation of SDRs, review of quota structure, and matters of special interest to developing countries—including the link, and establishment of the Joint Fund-Bank Ministerial Committee and the extended Fund facility. Some of these proposals have been put into effect by the Executive Board. The Fund Executive Board deserves our appreciation for taking initiative in creating the oil facility and extended Fund facility, which are likely to stave off the immediate crisis in the international situation.

Inflation has been the dominant problem for the world economy today, and I believe each of us in this gathering subscribes to the view that it deserves our highest priority. Contrary to the basic objectives of our Articles of Agreement, there has been a tremendous shift toward more restrictive policies, and although this situation can be explained as arising from problems created by world-wide shortages, bottlenecks, and the impact of the oil situation, there is nonetheless a strong need to

conduct effective anti-inflationary policies at the national level without adversely affecting the interests of other countries as far as possible. I am of the opinion that along with the guidelines for floating there should also be a guideline or code of behavior regarding anti-inflationary policies implemented by member governments, especially those which have significant influence on international trade.

Unless the oil situation settles and a new economic order starts functioning, the implementation of halfway measures will not help ease the present-day problems. We have to expedite the implementation of reform proposals for the benefit of all the countries concerned. The Fund quota structure is being reviewed. The present distribution of quotas neither reflects the true economic position of member countries nor is based on principles of equity. I feel that the share of developing countries in the overall quota structure of the Fund should be raised, and to give proper representation to the voice of developing countries, it has become necessary to revise upward the minimum number of votes to which a member is entitled. I hope that this question will be taken up while considering the amendment of the Articles of Agreement. . . .

Finally, I wish to welcome once again the step being taken to establish the Development Committee to study the important question of transfer of real resources to developing countries. I am confident that the Committee will make significant contributions in articulating and presenting the needs of the poor and least developed countries so that our more fortunate member countries will find it possible and agreeable to respond to the very eloquent plea made by Mr. McNamara.

To some, the picture of the poor side of humanity that Mr. McNamara drew in this room might have appeared disturbing. Indeed, to be told that what is only an irksome inconvenience for some is a question of life and death for many others may impose a strain on minds that would rather not know about them. But to us, as people living in a country that is not only poor but also has the unfortunate distinction of being one of the least developed countries, this picture is only the reality around us. At a time when we are only beginning to lay the initial foundation of development, we are being overwhelmed by the unbearable burden of scarcity of essential development inputs, on the one hand, and prohibitive price increases, on the other. At a time

when we are only beginning to launch programs designed to cater to the basic minimum needs of our people we are confronted with the possibility of having to push them back to further misery.

Nepal is one of those countries that depends heavily on imports to carry out various development programs and to meet the essential consumer needs as well. We are not only an oil importing country; we import practically all the manufactured goods that we need for consumption or capital investment. As a result, when the increase in oil prices is followed through by increases in prices of other industrial goods, we get hit hard, as it were, from both sides of the fence.

In absolute terms, our additional import bill because of the energy crisis may appear small, especially when compared with the larger countries. But let me emphasize that this year, even with a restricted level of consumption, our import bill for petroleum products alone will increase by an amount which is higher than what we expect to spend on improvement of health facilities in the country. When we add to this the additional burden for the import of a variety of other goods, ranging from cement for construction to fertilizers for agriculture, the magnitude of the problem that we face can be easily imagined.

It is therefore appropriate that the Annual Report of the World Bank should point out that the prospects for economic and social progress of a large number of developing countries have been jeopardized, with the degree of jeopardy being greatest for those that are poorest. Similarly, in its resolution on special programs, the UN General Assembly observed that "the countries which have been most seriously affected are precisely those which are at the greatest disadvantage in the world economy: the least developed, the land-locked." Being both least developed and land-locked, Nepal fully realizes the importance of this statement. Having listened to many distinguished delegates, I take the comforting thought that there is a general and wide-scale realization now. I also believe that we will soon be prepared to act on the realization and commitment expressed in this room in the course of the last few days.

In conclusion, I should like to point out that with the tremendous development in science and technology the world is getting smaller and the international communities are getting closer. The widening gap between the living standards of the developed and most of the developing

countries is a matter of great concern. Conditions of increasing affluence, on the one side, and below-subsistence poverty, on the other, can never be conducive to peace on this earth. I hope and trust that the more fortunate in the community of nations will take a more liberal and long-range view in the noble task of lifting the least developed nations out of the vicious circle of stagnation and poverty, and help make this world a happier and more peaceful place to live in for humanity at large.

Statement by the Governor of the Bank for Malawi

D. T. Matenje

First and foremost, on this occasion I would like to join with my fellow Governors in expressing through you, Mr. Chairman, on behalf of myself and my delegation from Malawi, our very sincere thanks to the Government and people of the United States of America for the warm welcome and hospitality which they have accorded us since we arrived in this city. I am sure that the hospitality will go a long way toward making this meeting and our stay here both successful and enjoyable.

Again this year, as in previous years, the Annual Report of the Executive Directors of the Fund provides us with a concise exposition and analysis of world economic developments in the areas of the Fund's competence, and of the work of the Fund, during the last year. The combination of serious and universal inflation with declining growth and unprecedented balance of payments disequilibrium has produced an unusually complex international scene. It has presented the Fund and its members with unusually difficult problems of analysis and policy design. Nevertheless, the issues emerge clearly from the Report, and the Fund has taken a realistic, pragmatic, and active attitude in facing these problems. We feel that the Executive Directors, the Managing Director, Mr. Witteveen, and the staff deserve our gratitude; we much appreciate the hard and dedicated work that has clearly been performed during the difficult months of 1973–74.

There is no need to add to the description and diagnosis of the current world economic situation which the Annual Report has presented to us. My comments, at this stage, focus on the Fund's actions.

In a realistic response to the severe complication imparted to an already difficult situation by the petroleum price increases, the Committee of Twenty reordered its priorities to concentrate on a gradual reform of the international monetary system. But agreement even on the Committee's proposals of immediate action has been difficult and incomplete. In particular, only partial agreement has been achieved on details of an adequate balance of payments adjustment mechanism and there has been no real progress in respect of the linking of real resources transfers to the developing countries with the provision of internationally controlled additions to the stock of reserve assets.

No doubt the difficulties in reaching agreement on adjustment are, as the Report indicates, understandable in the circumstances. But the threat of national action to restrict current account transactions to protect balances of payments—and some such actions have already been taken—is surely most serious, especially in respect of exports from developing countries.

We cannot support too strongly the Report's call for international cooperation, for as it well says, "the stakes involved in the achievement of a successful adjustment are unusually high." The lack of agreement so far on the link, in which we, like our fellow developing countries, have an intense interest, is especially disappointing. This matter had acquired even more acute importance as a result of the severe balance of payments threats originating in the abrupt increase in the prices of petroleum products, including fertilizers, to which the developing countries, which are non-oil exporters, have been exposed. The damage which this increase in import costs has done and its threat to the carrying out of our development plans have become only too clear.

This situation has led developing countries to revise their development programs to take stock of rising project costs, as most programs contain very large import components. The levels of development programs have had to be scaled down to the level of available funds. Alternatively, we have attempted to obtain additional funds from capital markets around the world. But, with development funds on soft or moderate terms strictly limited, and with high interest rates prevailing in the commercial markets, additional capital has proved extremely expensive.

We very much welcome, in this connection, the establishment of the Fund's new oil and extended facilities. We hope that, when the oil facility is reviewed, it will be found possible to expand it and broaden access to it. At present, Malawi is fortunate in that the increased costs of petroleum product and fertilizer imports have begun to be felt rather later than we had at first expected. But it is now becoming clear that our import costs for these essential materials will at least double. While our reserves have increased through the second quarter of the current year, we cannot hope to escape an increase in the cost of our petroleum product imports, which is considerably larger than that which results from the formula at present used to determine access to the oil facility. We also hope it will be possible, perhaps in connection with the review of the oil facility, to simplify the present increasingly complex system of rules and policies that govern the use of the Fund's resources into perhaps two broad categories, one based on the Fund's tranche policies and the other combining special drawing facilities into one under special conditions. More generally, the initiative that has been taken in the Fund to simplify the management of General Account transactions appears to us to deserve support.

We see merit in the other decisions taken by the Executive Directors on June 13, 1974, in particular, those on the SDR valuation and interest rate, on the guidelines for the management of floating rates, and on the proposal for the Interim Committee of the Board of Governors. They are all useful elements in the gradual construction of a reformed international monetary system, even though these measures are obvious second-bests to a systematic reform, especially toward a regime of more stable, though flexible, exchange rates. Malawi's own exchange rate policy consists of daily determination of exchange rates for the kwacha, based on a weighted average of the rates for our two principal trading currencies, the pound sterling and the U.S. dollar, much in the manner in which the valuation of the SDR is now being carried out. The resulting relative stability of the kwacha vis-à-vis the currencies of our principal trading partners has been satisfactory to us so far, even though some of these currencies have in the meantime been permitted to float against the U.S. dollar.

The current rate of international price inflation obliges me to say again now what we said at the meetings in Nairobi, namely, that it has become exceedingly difficult for us—as it has, I am sure, for many

developing countries in positions similar to our own—to adjust to a world which has forced us to "import" a rate of inflation larger than Malawi has ever experienced. The management of our fiscal and monetary policies has succeeded, I think, in avoiding the creation of domestic inflationary pressure. And our exchange rate policy has moderated the effect on domestic prices of the foreign exchange costs of imports and returns on exports. Nevertheless, the strains of the transmission of inflation in our trading partner countries to our domestic prices have begun to be felt with increasing force and will, unfortunately, continue to do so for the foreseeable future. While, of course, our exports have benefited, the consequent domestic price advances will no doubt make the continuation of progress in our development efforts more and more difficult. We have therefore no hesitation in joining fellow member countries in giving the most urgent priority to a determined and internationally coordinated fight against inflation.

Finally, I would like to express Malawi's great interest in the Sixth Review of Fund Quotas. We hope agreement can be reached on an increase in the size of the Fund and thus an increase in conditional international liquidity for its members. In view of the opening of the extended Fund facility, such an addition to the Fund's resources will be especially welcome, in particular to the developing countries. . . .

Statement by the Governor of the Fund for China

Kuo-Hwa Yu

On behalf of the delegation of the Republic of China to the Fund and Bank, I wish to join my fellow Governors in expressing our thanks to Mr. Witteveen, Mr. McNamara, the Executive Directors, and the staff of the Fund and Bank for another year of dedication to attempt to solve seemingly unsurmountable problems.

May we commend the Committee of Twenty and their Deputies for their devotion and achievement since our last Annual Meeting. We welcome the Outline of Reform, which has been worked out under very trying conditions in a world of rampant inflation, energy crisis, and many unsettled elements. They have included in the Outline a set of

interim steps to help solve the near-term problems. In this connection, we wish to express our appreciation for the efficient manner in which the Executive Directors have cooperated with the Committee of Twenty and for putting into action certain interim measures recommended by the Committee.

We welcome the establishment of the Interim Committee on the International Monetary System, which we believe is needed to deal with changing situations and to carry out in stages the desired reforms.

My delegation endorses the guidelines for the management of floating exchange rates and the valuation and interest rate of special drawing rights. The adoption of the guidelines will avoid possible competitive depreciation and, in due course, contribute to a more stable and adjustable exchange rate system. Furthermore, the new method for the valuation of special drawing rights on a basket of currencies is a significant breakthrough in furthering the use of the SDR as an international reserve asset. The fixing of a more realistic rate under an adjustable formula for special drawing rights will make it more attractive to the holder. In general, my delegation would like to give its full support to a flexible par value system based on the SDR with a one-world approach.

We also welcome the adoption of the oil facility by the Executive Board. This assistance will be most helpful to the needy members' efforts to solve payments problems as a result of rising energy costs.

In recent years the need of developing countries for external aid has become more urgent. My delegation is pleased with the Committee's recommendation that a new facility be considered to provide long-term aid to Fund members. We also subscribe to the suggestion that a Joint Ministerial Committee of the Fund and the World Bank be set up to study further the transfer of real resources to developing countries. In a developing country, there is little room for maneuver in times of inflation and shortages.

Let me now make a few brief observations on the economy of the Republic of China as it has been affected by world-wide inflation, shortage of raw materials, international monetary instability, and the energy crisis. Although the growth rate of GNP was still maintained at 12.3 per cent in 1973 and foreign trade went up by 50 per cent, the long record of economic and monetary stability is being challenged.

The economic stabilization program, adopted early this year, has been successful in arresting the rising trend of commodity prices and also in slowing down the rate of increase in money supply to a normal pace. Like most countries, we have been facing economic sluggishness. Since 50 per cent of our GDP is for export, any sizable reduction in our exports will in turn seriously affect our ability to import. It is, therefore, vital to the developing countries that trade restrictions should be kept to the minimum. Perhaps it is fitting to remind ourselves that one of the cherished purposes of the International Monetary Fund is to facilitate the expansion and balanced growth of international trade. My delegation earnestly hopes that both the oil facility provided by the Fund and the reform of the international monetary system will be conducive to the continuation of trade expansion. . . .

Finally, my delegation hopes that, with genuine international cooperative measures, we may look forward to an easing off of the worldwide inflation in order to restore the much-needed economic growth of all countries, developed and developing.

Statement by the Governor of the Fund and Bank for Luxembourg

Raymond Vouel

The introductory speeches of Mr. Konan Bédié, Mr. Witteveen, and Mr. McNamara, as well as the statements of the various Governors, have exposed the exceptional character of the international economic situation at this time, particularly in respect of three aspects:

(1) an inflation that is generalized and of a virulence unknown since the end of World War II;

(2) a massive and increasing disequilibrium in the payments balances of a large number of countries, occasioning enormous movements of capital that threaten to dislocate the international monetary system; and

(3) a dramatic deterioration of the situation of the poorest of the developing countries.

It is unanimously recognized that the conjunction of these factors and the consequences to be derived from them at the internal and international level could lead to a crisis of the world economy, the gravity of which must not be underestimated. Only resolute, well-coordinated international action, with which all member countries—regardless of size—should be associated, can put an end to the difficulties our countries have to face at this time. The Luxembourg Government is the more conscious of the need for this international cooperation in that the experience of its history has shown that a search for purely national solutions to problems of international dimension is liable to be carried out to the detriment of the smallest and weakest countries. In this connection I can only associate myself with my Belgian colleague when he deplored the practice of meetings "entre grands," which seems to be taking the place of the existing world or regional organs and which, as Mr. De Clercq has stated, could bring more confusion than cooperation.

As to inflation, which is a major problem throughout the world, I gladly concur with the opinion of my colleague Hans Apel when he says that economic progress and democracy depend on social justice, and that, for this latter, a stable currency is an essential prerequisite. Therefore, in the struggle to eradicate this scourge it is vital that we increase our efforts, every one of us in his own country, and that we should work yet more closely together if we wish to succeed on the international level. The fight against inflation entails implementation of a coherent ensemble of diversified instruments. Among these, measures favoring the formation of a larger amount of savings play an essential role in the moderation of demand. Such savings should therefore be offered adequate remuneration in real terms, particularly for the lower-income population groups who evince a high propensity to consume.

It goes without saying that the fight against inflation must also include restrictive measures. However, it is advisable to proceed with moderation and to handle economic development with sufficient flexibility to avoid the risk of occasioning intolerable unemployment or provoking chains of bankruptcies and an increasing loss of confidence on the part of the public, thus endangering the economic, social, and political structures.

In recent months the acceleration of inflation has been coupled with a growing disequilibrium of the balance of payments, both in the indus-

trial and in the developing countries, especially following the massive—even, indeed, excessive—oil price rise. The emergence of substantial capital movements in the form of petro-dollars gives a burning actuality to the problem of their recycling. On this question, I support the opinion of Mr. Healey when he stated: "At this moment we are little more than half way through the first year of this crisis and existing mechanisms for recycling the petro-dollar surplus have operated with remarkable efficiency. The private banking system in the consumer countries, operating in particular through the Euro-markets, has met the need, with some assistance from bilateral borrowing agreements between individual consumer and producer countries. I hope and believe that the private banking system will continue to play a major role in this recycling, a task now rendered easier by progress which has recently been made by our central bankers in monitoring these vast capital movements and in establishing responsibility for dealing with any disturbances which may arise."

The existence of the international money markets, particularly the Euro-markets, in whose functioning the Luxembourg market also participates, has incontestably enabled us to surmount part of the difficulties resulting from various countries' balance of payments disequilibrium. The functioning of these markets doubtless entails certain inconveniences: for one thing there is creation of additional liquidity with the inflationary consequences we know only too well; then, again, the national monetary authorities have but little influence over them, in the absence of a policy better coordinated at the international level.

At present, efforts designed to assure an improved control of international financial operations are developing at the level of governments and of national monetary authorities. By reason of its importance, the Luxembourg money market does not want to elude its responsibilities; all the same, the Luxembourg authorities think they should have the right to participate in the formulation of the agreements and decisions arising out of a common strategy.

In this context, I hail the agreement recently concluded between central banks, an agreement in which Luxembourg joined. And here I would point out that my country at the present time has the legal and regulatory means necessary for effective banking control. The interventions of the competent authority, based on expanded powers, are

essentially pragmatic, which has hitherto enabled us to avoid the excesses and accidents occurring elsewhere, notably in matters of exchange operations.

Although the Euro-currency market and other international money markets have so far made a very important contribution toward solving the problem of the recycling of petro-dollars, the increasingly large amounts involved do, however, demand the creation of new financing circuits in which international institutions such as the International Monetary Fund must play a leading role. We will have to be particularly watchful to ensure the adoption of formulas that afford varied possibilities of investment for the oil producing countries. In this connection we support the proposals for the creation of an extended facility in the Fund, in which a larger share of oil dollars may be invested over long periods.

Moreover, regional efforts such as those of the European Community relating to the Community's borrowing, as well as those of the European Investment Bank, will become increasingly important.

Yet we must realize that the recycling of capital does not constitute an absolute remedy in every situation. There are always limits to indebtedness. This is especially true in the case of most of the developing countries, which lack natural wealth and are consequently in a very serious situation. It is therefore essential that the resources for action of the international aid mechanisms, most particularly the World Bank and its affiliates, should be appreciably increased. Within this framework, it would be logical if the countries having extensive surpluses in their payments balances were to agree to increase their efforts to this end. Luxembourg, for its part, will unhesitatingly contribute to this effort within the limits of its resources. In this connection also, we hope that the creation of the Ministerial Committee on the Transfer of Real Resources will be able to put forward positive proposals aimed at improving the coordination of international efforts to improve the sometimes drastic situation of the less developed countries.

In conclusion, we are compelled to admit that the difficult circumstances of the economic situation in which we now find ourselves constitute a challenge to the spirit of international cooperation. In the face of the problems that concern us all, resolute and concerted action is needed. In this respect, the establishment of an international monetary

system based on fixed but adjustable exchange rates should constitute an early goal. Meanwhile, it is essential that the interim measures proposed by the Committee of Twenty and contained in a resolution submitted to our assembly should be put into operation. The Interim Committee will have a vital role to play in this sphere.

It remains for me to stress, finally, as the representative of a small country largely dependent on foreign trade, that I attach very special importance to the voluntary declaration on trade and other current account measures, to which the Luxembourg Government will certainly not fail to subscribe.

It will be thanks to a reinforcement of international cooperation if we can expect that many problems confronting us today will have been satisfactorily solved for all when the next Annual Meetings take place.

Statement by the Governor of the Fund for the Yemen Arab Republic

Mohamed Ahmed Al-Gunaid

On behalf of the delegation of the Yemen Arab Republic, I would like to express my gratitude and thanks to our hosts, the Government and people of the United States, for their warm hospitality and for making our stay in this beautiful city of Washington ever so enjoyable. We extend our warm welcome to Papua New Guinea as a future member.

In this year's meetings we are faced with a dismal and gloomy outlook of the world economy, characterized by rampant inflation and a marked slowdown in the growth of real output. Had it not been for the guidance of the International Monetary Fund, the world would have been plunged into another severe depression from which no one would have gained. The pace of trade liberalization should be accelerated and national economic policies should be coordinated to fit into a harmonious international pattern. Here, of course, the International Monetary Fund has a major role to play.

Price stability is a target toward which all members must move. It should not be sacrificed for any other economic goal. The rates of inflation which we have been experiencing for the last few years are

staggering and, unless something is done to bring them down, they are bound, in the end, to undermine confidence in money, which is the linchpin of every modern economy. The social inequities and dis-allocation of resources involved should always be borne in mind. Besides, inflation makes the balance of payments adjustment process more difficult.

The advanced countries have been very liberal in exporting their inflation to the countries of the third world. Imported consumer goods are becoming more and more expensive and some poor countries have to do without some capital equipment imports, which are badly needed for their development programs. Due to no fault of their own, they watch helplessly the continuous dwindling and erosion of the value and purchasing power of their reserve assets, which are predominantly denominated in rapidly depreciating currencies.

The proposed Interim Committee of the Board of Governors of the Fund has a moral obligation to take into account the interests of the less developed countries in view of the inequitable system of representation and voting.

No restrictions should be imposed on current account transactions, and the proposed sanctions and pressures available to a strengthened Fund must take into consideration the vulnerable position of the less developed countries. Moreover, the manufactured goods of the less developed countries must also have easy access to the markets of the industrialized countries.

The demonetization of gold must not be delayed any further, and a substantial part of the liquidation profits of the present monetary gold stocks should be allocated for the financing of the development of the less developed countries. Furthermore, the SDR should at once be established as the number one reserve asset. This will be no problem if members place as much confidence in SDRs as they now do in gold or other reserve assets.

Besides supporting the established extended Fund facility, we also believe that the link proposal is a great idea which must be adopted. The industrialized countries have nothing to worry about, as SDRs allocated for economic development will be spent on capital equipment produced by their industries.

Allow me now to say a few things about my country. The Yemen Arab Republic emerged in 1970 from a long period of civil strife and protracted drought conditions. The Government has since then adopted an outward-looking policy aiming at, among other things, the rapid economic development of the country, after centuries of seclusion and isolation. And we have done fairly well during the last four years, partly owing to our own national effort and partly as a result of the assistance we have received from the World Bank Group, the Fund, and friendly nations. Our plans for the future are ambitious, and as such our need for assistance from international organizations and our friends will be greater.

Allow me to turn once again to the international scene. The advanced countries have failed to transfer to the less fortunate ones 1 per cent of their GNP in development aid, as recommended by the United Nations some years ago. Still worse, the total value of official development assistance from the Development Assistance Committee of the OECD countries declined from 0.34 per cent of their combined GNP in 1972 to 0.30 per cent last year, the lowest ratio so far. The industrialized countries should not use the so-called energy crisis as a pretext to curtail their development assistance to the less developed countries. Most less developed countries are unable to afford loans for development projects at the market rate of interest. Moreover, the service payments on the external public debt more than exceed the export earnings of most developing nations. We therefore suggest that the flow of a larger part of official aid should be directed through international agencies, especially IDA, whose soft credits are suitable to such countries as the Yemen Arab Republic.