

CONCLUDING REMARKS¹

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

Haruo Mayekawa

It is a great honor for Japan to have been selected for the chairmanship of the Boards of Governors of the World Bank and the International Monetary Fund for the coming year. In accepting the chairmanship, Japan promises to endeavor to carry out the duties of this weighty office, following the example of the excellent chairmanship that Mr. Miguel Boyer, the Governor of the Bank and of the Fund for Spain, has demonstrated before us.

Now, may I take this opportunity to say that I have just been informed from Tokyo that the bill for the IMF quota increase, which kept our Finance Minister Noboru Takeshita from joining this Annual Meeting, was approved by the Committee for Finance of the House of Representatives. It is my pleasure to report to you that the bill will be sent in due course to the House of Councillors for its deliberations.

In closing, I should like to pay my deepest respects to Mr. Clausen, Mr. de Larosière, and the staffs of both institutions for their leadership and many contributions.

I look forward to working closely with them throughout the year, and I hope that the positive signs that have begun to emerge in the world economy will have developed more fully so that we can gather again in 1984 with a sense that the goals we all share are within our grasp.

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

J. de Larosière

Mr. Chairman, our discussions this week have been wide-ranging, constructive, and fruitful. May I take this opportunity to express my appreciation to you for the effective way in which you have guided our deliberations and to thank you for your stimulating opening address.

¹Delivered at the Closing Joint Session, September 30, 1983.

The week began with an important agreement in the Interim Committee to continue the enlarged access policy in 1984. This provides a firm basis for our operations in the period ahead. Agreement will still have to be reached on the important question of access to the special facilities, a matter on which a number of Governors expressed views.

There were two dominant themes in the meetings of the Governors this week. The first was the debt problem facing many member countries and the Fund's role in dealing with it. The second was the evolution of the world economy and the policies necessary to broaden and sustain the recovery. Let me, in these concluding remarks, expand a little on these two themes.

The strong support for the Fund expressed by President Reagan in his opening address was particularly heartening. This support was echoed by all Governors in their interventions during the course of the week. There is, I think, a widespread recognition that the Fund is, in President Reagan's words, "the linchpin of the system." Its role and importance are especially significant at the present time when so many developing country members are facing serious external financing and indebtedness problems. I therefore welcome the determination that has been revealed at our meetings to give the Fund the capacity to play a meaningful role in helping the adjustment process of our member countries. The task now is to translate this determination into the actions needed to increase the financial resources available to the Fund. In this connection, Governors underlined the importance of bringing into force the increases in quotas under the Eighth General Review and the revision and enlargement of the GAB by the November deadline. I would like to thank those countries that have already taken steps to these ends. Governors also laid great stress on the importance of covering the existing "commitment gap" associated with the enlarged access policy, and they endorsed the efforts of the management to arrange additional borrowing for this purpose.

Fund assistance, however, can provide only part of the financing that debtor countries require. As Governors have recognized, other creditors have a major role to play. There has been widespread endorsement of the initiatives taken by the Fund in helping to organize financial arrangements tailored to the circumstances of individual countries. These arrangements, anchored to realistic adjustment programs, have involved the participation of other multilateral agencies, official lenders, and private creditors. Notwithstanding these arrangements, it is clear that the debt problems have not yet been resolved. The maintenance of adjustment efforts by borrowing countries, as well as continued understanding by creditors of their responsibilities, is called for. In this connection, the agreement in principle which has been reached on Brazil, and which I briefly reported

in my opening remarks, is an encouraging development. It reveals an understanding by creditors of their international responsibilities. Looking further ahead, several Governors expressed the view that the adjustment process would need to be supported by a willingness on the part of financial institutions and governments to provide financing under reasonable terms and conditions over an extended period. For the poorer developing countries, expanded flows of official development assistance will form an essential part of this strategy.

Of course, as many Governors pointed out, the borrowing countries themselves must play the most important role of all in this process. They must, in their adjustment programs, demonstrate to the world community that they are bringing their external payments position into alignment with their medium-term debt-servicing capacity. A great deal of progress has already been achieved in this direction. It has, as the Governors from developing countries have reminded us, taken place in a highly adverse international environment. It has therefore taken place at considerable cost in terms of lost output and unemployment. But—and this is a point that cannot be too strongly emphasized—the economic costs have been less than they would have been in the absence of comprehensive adjustment programs worked out with the Fund. At the same time, these programs provide the foundations for sustainable growth over the medium term.

The second main theme of our discussions this week was that of the recovery in the world economy. All Governors have recognized that a lasting recovery is crucial to the successful resolution of the financing and adjustment problems I have just referred to.

Recovery in the industrial countries is now clearly under way. I was impressed by how many Governors from these countries have an optimistic view about the near-term prospects for output growth in the economies they represent. Nevertheless, there is some uneasiness about the sustainability of the present expansion. Governors are concerned by high interest rates, the uncertain prospects for business investment, continuing budget deficits, and currency instability. You yourself, Mr. Chairman, drew attention to these problems in your opening address.

There is, therefore, a recognition that a number of steps remain to be taken to enhance the conditions for a durable recovery. As the Chairman of the Development Committee has put it, “the challenge in the period ahead is how the incipient recovery can be sustained, strengthened, and extended in a noninflationary environment.” The same thought was expressed by many Governors. I would like to draw from our discussions of the past week what I believe are the agreed elements of the policy strategy that is needed.

—First, recovery can only flourish in stable economic and financial conditions. As Governors have noted, this means a steady adherence to medium-term objectives and the avoidance of short-term expedients. It means, in particular, preserving and extending the gains that have been made toward the restoration of price stability. It may at times seem frustrating that economic activity responds only slowly to such a course of action. This may be due to the fact that the confidence lost as a result of the policy mistakes of the 1970s takes time to be rebuilt. As one Governor said, perseverance is necessary, but in the end financial discipline will create the conditions for healthy and sustainable growth.

—Second, recovery must be founded on a broad-based expansion in productive capital formation. It is generally agreed that the scope for such an expansion can only be provided by an increase in the volume of savings available for fixed investment. To provide for this, it is felt to be essential that the problem of fiscal deficits be dealt with. The anticipation of competition between demands on savings to finance continued high fiscal deficits and to finance the growth in investment needed to sustain the recovery complicates the task of bringing down inflationary expectations and helps keep interest rates high. I cannot emphasize too strongly the importance of credible action designed to demonstrate to markets that the long-term trend of structural fiscal deficits will be downward. Such a change would do much to improve the outlook for investment. But, as several Governors have reminded us, there are other important impediments to a revival of capital formation. The structural rigidities and regulation that have handicapped economic performance in the 1970s must not be overlooked merely because the short-term cyclical outlook has become brighter.

—A third element of the consensus is that a sustained recovery depends upon open trade and the rejection of protectionism. The combination of rapid technological change, exchange rate uncertainties, and high unemployment has brought protectionist pressures to a high pitch. Yet, it is clear from the statements of Governors that no one is in any doubt as to the dangers of yielding to such pressures. What is needed now is political courage and resolution to demonstrate in a domestic context what is so clear to us in this international forum, namely, that an open trade and payments system offers the best guarantee of expanded job opportunities and lasting prosperity.

Let me recall the common thread running through all the interventions this week: this was the commitment to collaborative, mutually supportive policies to deal with the challenges now facing the world economy. In this vein, Governors stressed the Fund's role in providing financial and other assistance to member countries and in exercising firm surveillance over

economic developments and international liquidity. Many Governors have called for reinforcing the Fund's surveillance activities, stressing that it should apply equally to surplus as to deficit countries and that it should be comprehensive in the range of policies and developments that are reviewed. Governors have also discussed the subject of an allocation of SDRs in the fourth basic period. This matter will be kept before the Executive Board, and, of course, I shall make a proposal for an allocation of SDRs in accordance with the Articles, if and when the necessary support of the membership is forthcoming.

More broadly, Governors have been conscious of the need to give attention to the evolution of the international monetary system as a whole as we make progress on the particular issues I have discussed above. They have expressed themselves in various ways on this. Some have emphasized structural aspects of the system and would favor an international conference on these matters in due course. Others have laid weight on the importance of domestic policies and of promoting a convergence of economic performance as the first order of business.

In closing, Mr. Chairman, let me wish all of you a safe journey home and say that I look forward to seeing you in Washington again next year.

STATEMENT BY THE CHAIRMAN OF THE BOARDS OF GOVERNORS,
THE GOVERNOR OF THE FUND AND THE BANK FOR SPAIN

Miguel Boyer

Having been privileged three days ago to open the discussion on the work of the World Bank and its affiliates and of the International Monetary Fund, I now have the duty of bringing to a close the Thirty-Eighth Annual Meetings of the Boards of Governors. I would like to take this opportunity to thank my fellow Governors, Mr. Clausen, and Mr. de Larosière for their constructive contributions to our deliberations.

I also am grateful to President Reagan for having expressed his Administration's steadfast commitment to our institutions.

As I look back on our discussions, I am struck by the change in the collective mood compared to the meetings in Toronto a year ago. It would not be an exaggeration to say that last year there was an air of crisis over our gathering, arising from a collective anxiety about the future of the financial system. It is clear that many problems still remain to be tackled, and, as many Governors have emphasized here, there is no room for complacency. Nevertheless, the anxiety is now replaced by an emerging sense of confidence that the situation is manageable—confidence that is

based on our experience during the past year, in which the system was subjected to severe strains and successfully survived them.

The catalytic role played by the Fund in mobilizing a collective response to cope with these strains has been recognized by all. At the same time, we have heard from many colleagues that they have begun the hard task of re-establishing viable external payments positions. Though a lot remains to be done, solid progress is being made. In this respect, adjustment programs worked out in cooperation with the Bank and the Fund have played a notable role.

It was in recognition of that role that we decided to advance the Eighth General Review of Quotas and that this Board, earlier this year, agreed upon a significant increase in the Fund's financial resources. This has been followed now by an agreement on the continuation of the enlarged access policy in 1984, after the larger quotas have become effective. There now remains the task for the membership of validating these vital steps by rapidly ratifying the increase in quotas. It is also clear that the Fund's financial resources need further replenishment for the implementation of the enlarged access policy, and I trust that this will be forthcoming in the near future.

In recognition of the World Bank's complementary role in the development process over the long term, expansion of the World Bank's capital base on a selective basis following the eighth review of the Fund quotas was also widely endorsed, and early discussion of the possibility of a larger general capital increase was supported. In addition, it was especially heartening to note the overwhelming support expressed for the speedy and successful negotiation of a Seventh Replenishment of IDA's resources of a size sufficient to be responsive to the needs of an expanded recipient community facing dire circumstances but not unmindful of the budgetary constraints affecting donor countries. I was also encouraged by the willingness of many Governors to consider the possibility of expanding the capital base of IFC to facilitate its task of stimulating direct private investment in developing countries.

Indeed, the destinies of our institutions lie in our hands—and in our hands alone. It is up to us to support their further evolution vigorously and to strengthen their ability to achieve the goals on which we have all agreed.

Wise national policies are necessary to ensure that the recovery, which has clearly begun, will spread geographically and be sustained over time. Only then can its benefits spread to the unemployed in industrial countries and the poor in developing countries, and, ultimately, that is what economic welfare is all about. We can all take back with us, from these

meetings, thoughts and ideas about the shape of such policies. All of us have also been reminded of the necessity of international cooperation to enable us to find our way out of the present difficulties. It is up to us now to continue to do the job that has been well begun. The more confident mood of these meetings can then be translated into a better economic reality.

On behalf of my fellow Governors, I thank the Government and people of the United States for the gracious hospitality they extended to us. I would also like to express my appreciation to the staffs of the institutions for all the assistance they provided me in the conduct of these meetings. And I congratulate the Governor for Japan, who succeeds me as Chairman for next year. Before adjourning, let me wish you all a safe journey home.

DOCUMENTS
and
RESOLUTIONS OF THE BOARD OF GOVERNORS