III The Objectives of Programs

The general objectives of adjustment programs supported by use of Fund resources are summarized in the Fund's Articles of Agreement. These objectives include:

> To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy. (Article I, Sec. ii)
>
> . . . to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members. (Article I, Sec. vi)

While the Fund provides resources in support of policies designed to carry out an appropriate adjustment program, a primary concern of African countries that adopted programs supported by use of Fund resources was the achievement of a sustainable level of economic growth. The key to such sustainability, however, was the achievement of domestic and external financial stability. If a country had high levels of domestic inflation, reflecting excess demand pressures, savings and investment would be discouraged, leading to a drop in economic growth. Similarly, if a country faced continuous external imbalances, the ensuing shortage of foreign exchange could result in a curtailment of important imported inputs and capital goods; in addition, the distortions arising from a disequilibrium exchange rate could undermine both the export- and import-competing industries. The sustainability of economic growth thus also would be impaired. Accordingly, in the design of these programs, an important prerequisite for a sustainable rate of economic growth was the achievement of domestic and external financial stability.

Domestic and external financial stability are interrelated. A high rate of inflation reflects excess demand pressures, which are also manifested in the external sector. Similarly, a low rate of inflation cannot be sustained indefinitely with an external deficit because, in due course, the inflow of goods and services would have to be curtailed, leading to an acceleration in inflation. Hence, if a sustainable external financial position is reached, it follows that a sustainable position of domestic financial stability has also been reached. This interrelationship is further seen in the fact that a country's current account position is the mirror image of, and is definitionally equal to, the difference between domestic investment and national savings.

The countries under consideration had external current account deficits that were symptomatic of the fact that domestic investment far exceeded national savings. These deficits were generally financed by foreign borrowing. Such an external position did not, in itself, imply that the external position was not sustainable. That depended on the magnitude of the underlying variables. A current account deficit can reflect either a high level of consumption or a high level of investment. If foreign borrowing is used to finance consumption, the productive capacity of the economy will not necessarily increase sufficiently to service the debt. In contrast, if the borrowing is used to finance investment, and the marginal return is equal to or exceeds the cost of borrowing, the current account deficit can become sustainable if other conditions are met. The following definition can be used: A sustainable external sector position denotes a current account position associated with a consumption and investment pattern that is consistent with the growth of debt-servicing capacity.

In most of the programs under consideration, accordingly, the three basic and interrelated objectives were generally to promote economic growth, to reduce inflation, and to improve the current account position over the medium term. Chart 1[5] shows the emphasis given to economic growth in the programs under consideration. Most programs aimed for an increase in economic growth during the program year as compared with the previous year. Nearly all programs attempted to hold annual inflation to about 15 percent. However, as shown in Chart 2, nearly the same number of programs allowed for an increase in inflation over the previous year as programs that tried to reduce inflation. This may have reflected a certain degree of realism as to how much, if at all, inflationary pressures

[5] Charts 1–14 are in Appendix I.

could be controlled in one year, particularly if cost-push elements were relatively important determinants.

Although all programs did not attempt in one year to narrow the current accounts (Chart 3) or, for that matter, overall balance of payments positions (Chart 4), the emphasis generally was on improving these indicators. In supply-oriented programs, in particular, an expanded level of investment financed by external assistance could involve an increase in associated imports, which would contribute to a short-term widening of the current account deficit. Such investment could be viewed, however, as contributing to the productive capacity of the economy and as encouraging increased exports or reduced imports over the medium term.

In sum, these diverse quantitative targets for the key objectives confirm that Fund-supported programs have tailored adjustment to the particular circumstances of the country.