UNITED NATIONS

1728th meeting

ECONOMIC AND SOCIAL COUNCIL

Resumed Forty-ninth Session

OFFICIAL RECORDS

Thursday, 12 November 1970, at 11 a.m.

NEW YORK

President: Mr. J. B. P. MARAMIS (Indonesia).

AGENDA ITEM 3

Report of the International Monetary Fund[1] (E/4928)

1. Mr. SCHWEITZER (Managing Director, International Monetary Fund) introduced the 1970 annual report of the International Monetary Fund, a summary of which had been circulated in document E/4928. The past year had been a particularly eventful one in the international monetary field. Some progress had been made in the adjustment of international payments as the external positions and prospects of several European countries had shown a marked improvement. That had helped to bring about a period of calm in the financial markets. On the other hand, inflationary pressures in the industrial countries remained strong and widespread and the deficit in the balance of payments of the United States continued to give rise to uncertainties in the field of international payments. The major events of the past year had been the first allocation of Special Drawing Rights and agreement on substantial increases in quotas. The operation of the Special Drawing Rights had already proved highly successful; they had been fully accepted as an effective reserve asset and the way was open to appropriate growth of international liquidity through a rational process of international consultation and decision. That should contribute to a smoother adjustment process and help to improve the volume and terms of development assistance.

2. During the year, the Fund's Executive Directors had given close consideration to the role of exchange rates in the adjustment of international payments and, at the annual meeting held at Copenhagen in September 1970, had submitted a report on the results of their study in which they had expressed the conviction that the basic principles of the par value system were sound and should be maintained and strengthened. The Governors of the Fund, had concurred in that view and the Executive Directors would continue their review of possible improvements in the system. Suggestions had also been made by some Governors for the study by the Fund of modifications of the Special Drawing Rights facility, including changes such as would be involved in establishing a link of some kind between the issuance of Special Drawing Rights and the financing of economic development. Executive Directors would want to give careful consideration to the Fund's programme of work in that field. In that connexion, the Fund had noted the wording of paragraph 52 of the International Development Strategy for the Second United Nations Development Decade (General Assembly resolution 2626 (XXV)) as well as the observations on and reservations to that paragraph. The significance of the adoption of the International Development Strategy lay not so much in the specific goals or targets mentioned, but in the corporate, public recognition by United Nations Member Governments of mutual, interlocking responsibilities in the economic and social field. On that basis, procedures and organizational arrangements could be established which could bring the broad economic and social goals appreciably closer.

3. In view of the emphasis on the process of review and appraisal of progress in the implementation of the Strategy for the Second Development Decade, he described the Fund's procedure for regular annual consultations which had begun in 1952 pursuant to the requirement that any member maintaining restrictions on current international payments under article XIV of the agreement should consult the Fund each year regarding their further retention. Many countries had removed their restrictions since the Fund had come into being; for others the elimination of restrictions had been delayed, although in most cases there had been a substantial reduction.

4. The initial purpose of the consultations had been to examine the scope for the gradual elimination of restrictive practices but, to be meaningful, that examination had to be made in the context of the whole balance-of-payments position and prospects. It therefore required an analysis of the over-all economic situation and policies of the country, taking into account prospective international economic developments. Such comprehensive reviews had enabled the Fund to act quickly on proposed changes in exchange rates or practices or on requests for the use of its resources and to evolve and adapt its general policies. They had served to inform members of the views of the Fund on their economic policies and of developments and policies in other countries. In 1960 the consultation procedure had been extended by voluntary agreement to countries having accepted obligations under article VIII, namely, countries that maintained the convertibility of their currencies and generally avoided restrictions on current payments and transfers.

5. Consultations began with the preparation by the Fund's staff of a survey of developments in the member's economy as background for discussions of policy issues. Those discussions, which could generally be limited to about ten days, took place in the member country between a small team of Fund officers and representatives of the Central Bank and appropriate ministries of the country. The Fund's staff then prepared, for consideration by the Executive Directors, a report containing an analysis of developments in the member's economy, a description of the exchanges of views between the staff and the member's representatives and an appraisal by the staff. In the case of consultations

[1] International Monetary Fund, *Annual Report, 1970* (Washington, D.C.).

under article XIV, the Executive Directors took a formal decision giving the Fund's views on internal and external policies, including any exchange measures that fell within the Fund's jurisdiction. The Executive Director representing the member presented further comments on its behalf and transmitted to the member country the views and opinions expressed during the discussion.

6. The principal emphasis in the consultations was on the question of maintaining or achieving financial balance in the economy while fulfilling the Government's own economic and social objectives, which might, of course, include those objectives to which the Government had subscribed in the International Development Strategy for the Second United Nations Development Decade. Consultations helped to highlight the over-all financial implications of the annual economic plans usually made by Governments and the ways of dealing with any emerging threat to the maintenance of financial balance. They stressed the need for co-ordinating annual financial programmes with economic development plans, on both a short-term and a long-term basis. Annual consultations were not directly concerned with the use of Fund resources but they helped the authorities and the Fund to evaluate balance-of-payments prospects and the nature of any corrective action that might be needed. On many occasions, consultations had helped in the preparation of a financial programme which could form the basis for stand-by arrangements or other uses of the Fund's resources.

7. Consultations had become increasingly valuable, permitting frank discussion of even the most sensitive issues, and close relationships of confidence and trust had been established. Governments had come to recognize the advantages of discussing with the Fund at regular intervals all the components of their economic and financial policies. Over the past two decades, there had been a growing awareness of the fact that the interests of the Fund and the national authorities coincided. The usefulness of consultations as a means for achieving the Fund's purposes had been greatly enhanced when they had been extended to countries accepting obligations under article VIII, particularly the major industrial countries, whose economic weight and financial and other policies had considerable influence on production, employment and balances of payments throughout the world.

8. In reviewing economic policies and developments within an industrial country, the Fund placed great emphasis on their repercussions on other countries and on the international monetary system as a whole. The community of interest was undoubtedly an important reason why the industrial countries considered it desirable to consult regularly with the Fund, although they were not required to do so. The working out of facilities such as Special Drawing Rights and compensatory financing had in great measure been made possible by the atmosphere of mutual confidence which had been built up over many years.

9. The Fund, which attached great importance to the maintenance of an adequate flow of funds to promote economic development, was concerned about the adverse consequences of the practice of tying aid. Such measures as preferential exchange rates, discrimination in import licensing procedures, special credit arrangements and tax exemptions resulted in distortions in the allocation of resources, discriminatory treatment of imports and reduction in the real contribution of foreign aid. It was therefore gratifying that a majority of donor countries had recently expressed support for the principle of untying bilateral and multilateral aid.

10. The Fund was also giving increased attention to foreign debt management. It had increased its efforts to help the authorities of countries in which excessive accumulation of external debt had created a burden of repayment. From time to time the Fund had been asked by both creditor and debtor countries to participate in meetings of the governments concerned, set up to rearrange the debts of a particular country. It was glad to do what it could to assist its members on those conditions by providing an analysis of the short-term and long-term balance-of-payments prospects. But it believed that large-scale debt renegotiations could often be avoided if decisions regarding the terms and conditions of foreign aid and private investment, including their use, were carefully considered by debtor and creditor countries at an earlier stage.

11. The Fund had taken steps to provide special financial assistance to member countries whose payments positions were adversely affected by temporary shortfalls in export receipts or in connexion with the financing of buffer stock schemes. A number of developing countries had made use of the compensatory financing facility. The Fund had followed closely the negotiations leading towards the renewal of the International Tin Agreement and the Executive Board would shortly be considering whether that Agreement would qualify for the use of the Fund's buffer stock facility.

12. Those two policies, however, covered only the short-term and medium-term aspects of a wider problem. The Fund's interest in commodity matters arose from its basic function of assisting individual member countries in dealing with their balance-of-payments problems. It was therefore concerned when actions by a member or group of members affected trade in primary products on a scale likely to cause significant difficulties for the payments situations or the domestic stability of other members. The Fund also had a particular interest in commodity trade practices that were a factor in situations giving rise to use of the compensatory financing facility or that affected the operation of buffer stock schemes. It believed that countries should seek to attain their domestic objectives in a way that would minimize the burden of adjustment on other Fund members. It was therefore endeavouring, in the consultations, to conduct a closer review of the international aspect of commodity problems and policies. Any positive actions in that area should reinforce the benefits that developing countries might derive from the recent and welcome agreement in UNCTAD on a generalized system of preferences (resolution 75 (S-IV) of the Trade and Development Board). It was in the interests of all countries, developing and developed, that the recent retrogressive tendencies be arrested and that the forward momentum in the removal of the trade barriers of the early 1960s be resumed.

13. In dealing with its members, the Fund was addressing itself to the problem of the widespread inflationary

pressures in the industrial countries which adversely affected the world economy. A stable financial environment was essential to foster economic and social progress. The fight against inflation was thus an urgent objective and required a concerted effort on the part of all concerned.

14. Mr. VIAUD (France) said that the economic situation of the primary producing countries, which were particularly vulnerable to fluctuations in the world economy, depended mainly on two factors: the growth rate of the industrial countries, and the more or less joint efforts of producer and consumer countries to introduce some degree of control of commodity trade.

15. The operations of the International Monetary Fund during the period 1 April 1969 to 31 March 1970 showed that currency purchases amounted to nearly $3,000 million, an increase of 6 per cent compared with the preceding year. The industrial countries' share in those operations was 87 per cent and that of the developing countries 12 per cent. The latter countries made use of Special Drawing Rights to the value of $138 million, and they also undertook repurchases within the compensatory financing branches totalling some $75 million. However, that situation had changed since the beginning of 1970 in the sense that some industrial countries, which had made substantial purchases of currency in 1968 and 1969, had undertaken substantial repurchases in the months following the end of the financial year covered by the report. Thus the liquidity of the Fund had increased and so had its possibilities of intervening.

16. That situation might well give rise to some optimism, if it were not that the international community was encountering certain difficulties which, though not of direct concern to the Fund, might in the long run affect its operations and perhaps even the basic principles of its activities.

17. In 1970, the Annual Meeting of the Board of Governors had had several problems to deal with, notably the persistence of inflationary pressures in the world, the rules governing exchange rates, and the link that some countries had suggested should be established between the creation of Special Drawing Rights and development aid.

18. There were currently few countries that were free of inflation. The phenomenon was all the more sinister since it took the form of cost inflation, and thus affected both the conditions of production and social equilibrium. The developing countries were particularly vulnerable to world inflation, since the rise in interest charges increased the cost of the long-term capital they needed, while the restrictive policies adopted by some industrial countries represented an obstacle to any increase in the volume of aid.

19. The Board of Governors had noted that the persistence of the balance-of-payments deficit of the United States was the principal threat to the stability of the international monetary system. Because of the important place occupied by the United States in the world economy, other countries were affected, sometimes seriously, by the excessive accumulation of dollars in their currency reserves. The Managing Director of the Fund had therefore suggested at the annual meeting at Copenhagen that the United States should endeavour to reduce its external payments deficit by dipping into its own reserves, and reverting to more systematic use of the means available through the Fund. France had suggested that account should be taken of the real deficit in the United States balance-of-payments in assessing the total volume of liquidity needed when the time came to decide on the next allocation of Special Drawing Rights.

20. The problem of the rigidity of exchange rates continued. In that connexion, account had to be taken of the special position taken by the members of the European Economic Community (EEC). The "Six" were continuing their work at The Hague with a view to concluding a monetary union, on which agreement in principle had been reached at a meeting of the Heads of State at the end of 1968. At that time they had decided not to use any facilities that might be instituted at the world level in the way of margins of fluctuation; they were now engaged in studying ways and means of tightening up intra-European margins. In their relations with the rest of the world their position was governed by support for the principle of the stability of exchange rates, which was one of the basic foundations of the Bretton Woods system. One of EEC's main concerns was not to give the developing countries, struggling to deal with fluctuations in raw material prices, additional worries about fluctuations in exchange rates.

21. The establishment of an artificial link between Special Drawing Rights and development aid would disrupt the conditions of operation of the SDR machinery, and would inevitably encourage world inflation, which was generally agreed to be particularly harmful to the developing countries. Moreover, the SDRs were not, by their very nature, a form of direct or indirect aid to development. Development aid meant providing the recipient countries not with mutual and reversible credits, but with long-term gifts or loans of capital, in other words, with real resources from the industrial countries. Any attempt to establish an institutional link between SDRs and development aid might furnish a pretext to some countries not to increase their effective aid. It would obscure the essential feature of the International Development Strategy, which was to provide the third world with a minimum of assistance calculated on the basis of the national product of each developed country. Any confusion in that field could only harm the cause of development. That did not mean that the SDR system could not provide an opportunity for industrial countries to increase or modify their external aid. There was no reason why some developed countries, particularly those that had not yet attained the 1 per cent target, should not make use of their allocation of SDRs to establish bilateral aid programmes or to increase their contributions to international organizations.

22. It was obviously desirable that the IMF, without of course neglecting its fundamental role as guardian of monetary equilibrium, should strive during the Second United Nations Development Decade to direct its concerns and actions towards the goal to which the United Nations attached special importance, namely, the development of the third world. In fact the Fund already had some means of action in that sense, such as the compensatory financial facility. The Fund could also play an important part in evaluating the results of the International Development

Strategy, particularly during its periodic consultations with the Governments of member States. On that point the remarks of the Managing Director of the Fund were encouraging.

23. Mr. BRADLEY (Argentina) said he was greatly encouraged by the interest that the Managing Director of the Fund had shown in the question of a link between the issuance of SDRs and the financing of economic development. Argentina believed that the IMF should undertake studies to facilitate procedures for establishing such a link, that might perhaps be used during the Second Development Decade to increase the financial resources of the developing countries.

24. Another point of special significance to Argentina was the interest that the Managing Director had expressed in the flow of capital to developing countries. It was particularly important that that problem should be dealt with: borrowing in the capital market was becoming more expensive; there was a reduction in the inflow of public and private capital to the developing countries; and protectionist measures had been adopted following the deterioration in the balance of payments of certain advanced countries. That situation was a matter of great concern to Argentina as an importer of capital. Clearly, the increase in interest rates was having the effect of restricting the flow of capital to the developing countries. The Fund should study possible solutions in the capital-exporting countries that would relieve the pressure on their balance of payments and supplement the financial resources of the developing countries. The capital-exporting countries had adopted short-term measures that were not likely to benefit their balance-of-payments situation in the long term and were in fact likely to lead to long-term distortions in the developing countries. The Fund was giving useful advice to developing countries that had problems in meeting their external debt commitments.

25. It had also expressed a considerable interest in the production and trade in primary products of the developing countries. The Managing Director had referred in his statement to the use by many countries of the compensatory financing facility. The fact that the IMF report referred to such obstacles to primary commodity trade as the competition from synthetics showed the Fund's concern with the relations between the trade in and production of primary products, on the one hand, and finance, balance of payments and the world monetary situation, on the other.

26. As far as the financial situation was concerned, it would not be right to establish a discriminatory system of exchange rates that might legitimize practices that, although tolerated in the past, were unjustifiable. The question of the rate of exchange was a matter that should be left to each country to decide for itself. Argentina also believed that the Fund should perhaps re-examine the formula that had long been used to establish contribution quotas so as to ensure that the developing countries would not be adversely affected. The Fund should also re-examine the system of financial support for commodity buffer stocks, since despite reduction in world prices of commodities, the Fund had not undertaken any such operations since it had been established.

27. Mr. SKATARETIKO (Yugoslavia) thanked the Managing Director of IMF for his informative and lucid statement. Considerable attention had been paid at several recent meetings to questions relating to international financing, and in particular to external financing of economic development, but on some important issues no significant progress had been made.

28. The developing countries were concerned at the slow pace of progress in exploring the possibility of establishing a link between SDRs and the financing of development. The importance of that problem had been stressed during the two years of negotiations leading to the adoption of the International Development Strategy for the Second United Nations Development Decade. In that connexion, he drew attention to paragraph 6 of the joint formal statement by eighty-nine developing countries concerning the International Development Strategy[2] and to the statement made by the Yugoslav Federal Secretary for Finance at the 1970 annual meeting of the Board of Governors of the Fund on that point.

29. The arguments in favour of earmarking at least part of the allocated resources for the creation of supplementary financial means for development purposes were already well known and should be studied by the Fund, in co-operation with IBRD, with a view to the submission of specific proposals to the Board of Governors before the beginning of the next three-year period for the allocation of SDRs. He welcomed the statement by the Managing Director that the question of the establishment of a link between SDRs and the financing of economic development would be given careful consideration by the Fund and he hoped that paragraph 52 of the Strategy would be consistently and fully applied.

30. With regard to the growing problem of indebtedness, he believed that the financing mechanism needed to be improved by the rescheduling of repayments, the financing of development programmes, greater participation in local expenditures, or a combination of those methods. The problem was so acute in the developing countries that it was essential to find new ways and means of solving it.

31. Twenty-five years after the establishment of IMF, it was gratifying to note its important role and its impact upon the operation of the international monetary system in the world and the contribution it could make to the future review and appraisal process under the able leadership of its Managing Director.

32. Mr. OLDS (United States of America) said that he would only comment on three broad areas covered in the report of the International Monetary Fund and in the introductory statement just made by its Managing Director.

33. The first was the contribution in philosophy and method made by the IMF towards the strengthening of the United Nations system. There were three main elements underlying that philosophy: the manner in which IMF had called attention to the interdependence of the world; the manner in which it planned by anticipation rather than in

2 See *Official Records of the General Assembly, Twenty-fourth Session, Annexes*, agenda item 42, document A/8124/Add.1.

response to a crisis; and the consultation and co-operation which created the climate of confidence essential for planning both in individual countries and in the international arena.

34. The second broad area covered the following points, which were of special importance for the work of the Council and for economic development in general: the growth of IMF both in membership and in resources; the importance of stabilizing the essential initial function of the Special Drawing Rights before considering their potential relevance to development assistance; the pivotal role of exchange rates in the adjustment of international payments in the stabilization and improvement of the international monetary situation; the question of untying aid; foreign debt management and ways of dealing with it; the general system of preferences; and the practice of regular consultation which would play a vital role in the process of review and appraisal provided for in the International Development Strategy for the Second United Nations Development Decade.

35. The third broad area was that of inflation, now the centre of political debate in the United States. The United States believed that its real economic growth had levelled off, although it expected a moderate upturn leading gradually towards a sustained growth pattern in the coming quarters and that the rate of price increases in real terms had abated in 1970. It believed that the critical elements of inflation were under control, if not finally curbed and redirected. It was aware of the need from both the domestic and the international points of view to pay consistent attention to the problem and would welcome wise counsel and help from the Fund.

36. The Fund had made a great contribution both philosophically and operationally to the rationalization of the United Nations system, in addition to its special contribution on the monetary side. As long as any nation suffered serious monetary instability, no nation could remain indifferent. His delegation was grateful to IMF for forging the confidence which ensured that the necessary assistance would be forthcoming.

37. Mr. MARSH (Jamaica) said that his delegation was specially interested in the consultations that the Fund held with member countries from time to time. He was pleased to note the balance maintained in those consultations between monetary and fiscal policies; too often in developing countries the two policies were kept in watertight compartments. He hoped that in future consultations the Fund would help countries to develop a technique for linking them together.

38. With respect to the Special Drawing Rights, he endorsed the views expressed by the representatives of Argentina and Yugoslavia. Inflation had been a topic of concern for some years now. He hoped that in its consultations the Fund would be able to give guidelines concerning the import policies and fiscal measures which should be adopted to combat inflation. Although he did not wish to go into the political aspects of world inflation, he believed that the Governments of the developing countries should have a better understanding of those aspects.

39. Another point that might be usefully emphasized in consultations with developing countries related to payments arrangements for trade development. Specific technical and training arrangements were needed in many countries, including Jamaica. He looked forward to the Fund taking an active role in the development of special techniques for advising Governments concerning the International Development Strategy for the Second Development Decade.

40. Mr. MARTOHADINEGORO (Indonesia) said that the successful activation of Special Drawing Rights was a significant step forward in international monetary relations which had important policy implications for the Second Development Decade. It opened the way for increased international liquidity, would contribute to a smoother adjustment process, and would help improve the volume and terms of development finance. The fulfilment of the objectives of the Second Development Decade would depend to a great extent on the application of SDRs. However, as they did not yet fully meet the essential long-range requirements of additional international liquidity, consideration must be given to the possibility of establishing a link between them and the provision of additional development financing. He was glad that the Fund was considering the possibility of undertaking a study of the matter and that IBRD would contribute to it. He hoped that the study would lead to definite proposals for a new approach.

41. His delegation was gratified to note that the Fund attached importance to the maintenance of an adequate flow of funds aimed at promoting economic development and that it had expressed concern about the adverse consequences of the practice of tying aid. In view of the relatively high rate of inflation in most developed countries, the only increase in the flow of assistance from those countries which had any real significance should be based on the gross national product. Moreover, emphasis must be placed on the qualitative as well as the quantitative aspects of assistance and of the measures designed to untie aid.

42. A number of developing countries—including Indonesia—whose economies were dependent on world market prices of primary commodities, had long pressed for commodity agreements. His delegation hoped that the Fund would be able to devise ways and means of assisting developing countries which suffered from lack of diversification and whose trade stability depended largely on export earnings from primary commodities. The Fund should take into consideration the constructive ideas recently advanced by some developing countries in the Second Committee, including the suggestion that any disposal of strategic reserves during the Second Development Decade should be accompanied by compensatory measures in favour of producer countries.

43. Indonesia had benefited considerably from consultations with the Fund and appreciated its contribution to the negotiations which had led to a satisfactory rescheduling of its foreign debts. His delegation attached considerable importance to the review and appraisal of the economic programmes of the developing countries which was implied in the consultation practice of IMF and which had been incorporated in the International Development Strategy for

the Second United Nations Development Decade. It looked forward to learning how the Fund would contribute to the system of over-all appraisal following the consultations with the Secretary-General called for in General Assembly resolution 2641 (XXV).

44. Mr. SEN (India) said that the continued inflationary pressures in industrial countries and the growing concern about their implications for the international economic situation had provided a sombre background to the Fund's work during the preceding year. Nevertheless, some improvement in the structure of international payments and some progress towards a more viable realignment of major European currencies had been registered. Despite the comparative calm on the international money scene in recent months, the need for restoring and, in some instances, maintaining financial stability, particularly in the major industrial countries, was as great as ever. Only if those countries maintained sound economic policies could the developing nations hope to continue and intensify their efforts to achieve rapid growth in conditions of relative stability.

45. The anticipated increase of approximately 35 per cent in the size of the Fund once the increased quotas went into effect, and the activation of the Special Drawing Rights, would increase the ability of the Fund to promote additional international liquidity. Although those were welcome developments, there was an urgent need to examine the method of fixing quotas since the quotas themselves had become a basis for SDR allocations. He hoped that the Executive Directors of the Fund would consider the question of management in all its aspects and that any reforms would reflect the aspirations of the vast majority of the Fund's members, and not merely the existing structure of world economic power.

46. Now that the SDRs had proved successful, the time had come to give serious consideration to the proposal to establish a link between them and development finance. His delegation looked forward to a decision by the Executive Directors in the light of the recommendation by the Board of Governors to the effect that such a study should be undertaken. A prompt decision on the study and its early completion had assumed particular importance in view of the reference to the link in paragraph 52 of the International Development Strategy, and, if the Fund approved the link, appropriate action should be taken as early as possible, preferably before the allocation of SDRs in 1972.

47. His delegation welcomed the proposal that the Executive Director should further consider unresolved issues regarding exchange rate policy and its role in the adjustment process and that it should examine the legal aspects of any proposed reforms of the Bretton Woods system. Deliberations on the mechanism of adjustments should take into account the effects which any exchange flexibility would have on the external trade of the developing countries and on the flow of resources from developed to developing countries.

48. The primary objective of government policy and activity for a vast majority of the Fund's members–the developing countries–was to increase the rate of economic development; the Fund's policies must therefore be continuously adapted to support their efforts. The United Nations had recently taken a major step in that direction by adopting the International Development Strategy for the Second United Nations Development Decade, which constituted a comprehensive framework for national and international action. He was glad the Fund recognized the need for a radical transformation of trade and aid policies, that it attached particular importance to the elimination of tied loans and that it favoured a long-run liberal approach in trade policy.

49. Mr. OGISO (Japan) said that his delegation recognized the effectiveness of the Fund's consultation system, which could play an important role in the review and appraisal of developments during the Second United Nations Development Decade.

50. The Japanese Government considered in principle that aid should be untied, and welcomed the progress made at the recent high-level meeting of the Development Assistance Committee in Tokyo with a view to promoting the general untying of aid to facilitate the more effective use of aid funds.

51. It was clear from the summary of the Fund's report that the severe inflationary pressures on the world economy during 1969 and early 1970 had exerted adverse effects on individual countries and on the sound functioning of the international monetary system. The economic policies of individual countries were crucial in the effort to overcome world-wide inflation. It was important for countries suffering from inflation to maintain total demand at an adequate level through proper management and a combination of fiscal and monetary policies. Selective policy measures were more necessary than ever.

52. There was also an increasing need for consideration of the problem at the international level with a view to solving it through co-ordinated action. As the Managing Director of the Fund had noted, a stable financial environment was essential to economic and social progress, and if the world could obtain reasonable success in that sphere, it would make a valuable contribution towards the achievement of the targets of the Second Development Decade.

53. In 1969, primary producing countries had expanded their trade further and as a whole had registered a marked reduction in the current account deficit. Those trends stressed the importance of the continued growth of the world economy and the accompanying expansion of world trade, developments in which all countries had a stake. The activation of SDRs and the provision for a further substantial increase in Fund quotas would strengthen the Fund's ability to promote the stability of the international monetary system, which was necessary for the stability and growth of the world economy. It was important to establish through proper management the credibility of SDRs as reliable reserve assets. He had taken note of the statement of the Managing Director in the concluding remarks in Copenhagen as to the question of a link between the issuance of SDRs and the financing of economic development that the Executive Directors would want to give careful consideration to the Fund's programme of work in that field.

54. The question of altering exchange rates should be resolved within the framework of the present system

through improvements in management and operations. Any proposals inconsistent with the provisions of the Fund's Articles of Agreement were unrealistic. His delegation had taken note of the fact that the Executive Directors considered that the scope for possible changes in the present system was necessarily limited.

55. As the Managing Director had noted, the significance of the adoption of the International Development Strategy for the Second United Nations Development Decade lay in the recognition by United Nations Member Governments of mutual, interlocking responsibilities in the economic and social field. International co-operation would be particularly necessary as the world economy became increasingly integrated. The areas of concern to the Fund would grow in importance and its activities would therefore have a decisive bearing on the course of events.

56. Mr. BRECKENRIDGE (Ceylon) said that his Government attached particular importance to the Fund's efforts to help countries manage their foreign debt and overcome temporary shortfalls in export receipts. Although such assistance was generally considered a short-term measure, many countries, including Ceylon, found that they required it on a regular basis. As to long-term problems, he welcomed the Fund's interest in commodity matters. His Government looked forward to stable prices for Ceylon's commodities and an improved world market situation in which it could increase its export earning capacity. In view of the close relationship between export earnings and trade, on the one hand, and aid, on the other hand, he welcomed the Fund's expression of concern about the adverse consequences of the practice of tying aid. The proposal that the Fund should undertake a study on the possibility of establishing a link between SDRs and development assistance augured well for the establishment of that link, the importance of which was emphasized in the International Development Strategy.

57. Lastly, he expressed the hope that the Fund's future activities would reveal close relationships of trust with its member countries.

The meeting rose at 1 p.m.