UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/C.2/52/4
20 October 1997

ORIGINAL: ENGLISH

Fifty-second session
SECOND COMMITTEE
Agenda item 95

MACROECONOMIC POLICY QUESTIONS

Letter dated 17 October 1997 from the Permanent Representative of Belgium to the United Nations addressed to the Secretary-General

I have the honour to transmit to you the text of the communiqué issued by the Interim Committee of the Board of Governors of the International Monetary Fund, held on 21 September 1997 at Hong Kong, China, under the Chairmanship of Belgium.

I should be grateful if you would have this letter and its attachments distributed as a document of the United Nations under agenda item 95, "Macroeconomic policy questions".

(Signed) Alex REYN
Ambassador
Permanent Representative

ANNEX

Communiqué of the Interim Committee of the Board of Governors of the International Monetary Fund

1. The Interim Committee held its forty-ninth meeting at Hong Kong, China, on 21 September 1997 under the Chairmanship of Mr. Philippe Maystadt, Deputy Prime Minister and Minister of Finance and Foreign Trade of Belgium (see appendix II for attendance).

2. The Committee welcomed the generally favourable prospects for the continued expansion of world output and trade. There are, nevertheless, risks that confront individual countries and that could also affect the world economy, if not decisively addressed.

- In the advanced economies as a group, growth with low inflation is projected to continue. However, sustained fiscal consolidation remains a challenge for many countries, requiring resolute policies over the near and medium term. Exchange rates among the major currencies should reflect economic fundamentals, bearing in mind the importance of avoiding large external imbalances. In countries that have reached high levels of resource use, including the United States, monetary policy will need to guard against the re-emergence of inflation. In continental Europe, monetary policy should remain consistent with sustained expansion of domestic demand. The challenge for Japan is to achieve the objective of domestic demand-led growth with a supportive stance of monetary policy, while proceeding vigorously with its structural reform programme and further consolidating its fiscal position over the medium term. High levels of structural unemployment in several European countries point to the pressing need for more determined efforts to increase efficiency and adaptability in labour and product markets and to reform tax, social benefits and other entitlement systems.

- The growth performance and prospects of developing countries as a group have strengthened in recent years. However, further improvements are needed in many cases to achieve significant reductions in poverty. This highlights the need to maintain macroeconomic discipline and accelerate structural reforms, including "second-generation" reforms aimed at strengthening public administration and financial sector management, developing human capital, promoting basic infrastructure, and fostering a conducive and transparent environment for private investment.

- In some emerging market economies, large external imbalances and fragile banking systems have adversely affected investor confidence and have exacerbated the risks emanating from volatile capital movements.

- In the transition countries, growth has resumed following good progress, in most cases, with macroeconomic stabilization and structural reforms. Strengthening growth performance depends on speeding up legal, institutional and other reforms that encourage private economic activity and investment. To safeguard and build upon the achievements thus far, inflation will in most cases need to be lowered further through disciplined macroeconomic policies.

3. The Committee welcomed progress made towards a successful European Economic and Monetary Union (EMU) that contributes to stability in the international monetary system. The economic convergence achieved in Europe and the strong commitment to start EMU on schedule constitute a sound basis for securing a smooth transition to the euro on 1 January 1999. The best way to ensure a solid and stabile EMU will be for its participants to demonstrate not only their commitment to the fiscal requirements of the Stability and Growth Pact but also their resolve to attack the root causes of Europe's high unemployment.

4. The Committee reaffirmed the vital contribution of globalization to economic growth worldwide. Adherence by all members to the policy guidelines set out in the Committee's Declaration on Partnership for Sustainable Global Growth is essential to ensuring that all share in the benefits of globalization. The Committee welcomed the recent adoption by the International Monetary Fund of guidelines on governance issues, as well as the ongoing efforts to enhance the soundness of financial systems, notably the establishment of the Core Principles of Effective Banking Supervision developed by the Basle Committee in conjunction with the supervisory authorities in a number of emerging market economies.

5. The Committee noted that recent disturbances in Asian financial markets have again underscored the importance for policy makers in all countries to ensure the internal consistency of macroeconomic policies, strengthen financial systems, and avoid excessive external deficits and reliance on short-term foreign borrowing. Although the impact of recent financial market turmoil on some of the countries affected is expected to result in a slowdown of growth in the near term, the countries' economic fundamentals remain solid and their longer-term outlook if favourable provided that the required adjustment policies are sustained. The Committee also noted that the recent Asian experience has illustrated that rising capital flows may require some adaptation of exchange rate arrangements to changing circumstances. Regardless of a country's exchange rate arrangement, the maintenance of appropriate macroeconomic and structural policies consistent with that arrangement remains crucial.

6. The Committee commended the Fund for its prompt and effective response to the events in Asia, welcomed the support provided by the region, and invited the Executive Board to examine what further lessons could be drawn for the Fund's work and to report its findings to the next meeting of the Committee. In this context, the Committee recognized that the recent developments raised a number of analytical issues, including on the prevention of crises and contagion effects. The Committee stressed the importance of openness and accountability of economic policy-making, and of transparency, to achieving policy credibility and confidence-building in a globalized environment. It would be useful for the Fund to work in this area, including the possibility of developing a code of good practices. Timely and accurate economic information are also needed to improve the functioning of markets. The Committee welcomed the Fund's Special Data Dissemination Standard and the recent voluntary release of press

information notices on the conclusions of Fund surveillance in individual members, making an important contribution to transparency. The Committee looked forward to the strengthening of the Fund's Special Data Dissemination Standard.

7. The Committee reiterated its view that an open and liberal system of capital movements, supported by sound macroeconomic policies and strong financial systems, enhances economic welfare and prosperity in the world economy. The Committee adopted a statement entitled "The liberalization of capital movements under an amendment of the Fund's articles", which is contained in appendix I, and considered that an amendment of the Fund's articles will provide the most effective means of promoting an orderly liberalization of capital movements consistent with the Fund's role in the international monetary system. The Committee required the Executive Board to accord high priority to completing its work and submitting a report and a proposed draft amendment to the Board of Governors.

8. The Committee welcomed the agreement reached by the Executive Board on both the size of the increase in quotas under the Eleventh General Review and on the method to be used to distribute the overall increase in quotas. The Committee agreed that:

- The present total of Fund quotas would be increased by 45 per cent;

- Seventy-five per cent of the overall increase would be distributed in proportion to present quotas;

- Fifteen per cent of the overall increase would be distributed in proportion to members' shares in calculated quotas (based on 1994 data), so as to better reflect the relative economic positions of members;

- The remaining 10 per cent of the overall increase would be distributed among those members whose present quotas are out of line with their positions in the world economy (as measured by the excess of their share in calculated quotas over their share in actual quotas), of which 1 per cent of the overall increase would be distributed among five members whose current quotas are far out of line with their relative economic positions, and which are in a position to contribute to the Fund's liquidity over the medium term.

The Committee requested the Executive Board to submit before the end of 1997 a proposed resolution for the approval of the Board of Governors to effect the agreed increases in quotas. The Committee reiterated its view that the formulas used to calculate quotas should be reviewed by the Board promptly after the completion of the Eleventh General Review.

9. The Committee welcomed the agreement reached by the Executive Board on an amendment of the articles to provide all members with an equitable share of cumulative special drawing rights (SDR) allocations through a special one-time SDR allocation amounting to SDR 21.4 billion, which will double the amount of SDRs already allocated. Accordingly, it recommends the adoption by the Board of Governors of the proposed resolution.

10. The Committee welcomed the recent progress made in the implementation of the Heavily Indebted Poor Countries (HIPC) Initiative, including the decisions, in principle, of the Executive Boards of the Fund and Bank to provide assistance to Uganda, Bolivia and Burkina Faso, and the preliminary discussions on Côte d'Ivoire, Guyana and Mozambique. The Committee encouraged countries that could qualify under the Initiative to expeditiously take the necessary adjustment measures to benefit from this special assistance.

11. The Committee welcomed the continuing efforts to help secure the resources needed to complete the financing of the Enhanced Structural Adjustment Facility and HIPC initiatives. It noted that in the light of the bilateral pledges received or in prospect and the need to continue making commitments under the HIPC Initiative, further steps to secure the timely funding of these initiatives would have to be considered soon.

12. The Committee will meet again in Washington, D.C., on 16 April 1998.

APPENDIX I

Statement of the Interim Committee on the liberalization of capital movements under an amendment of the articles

1. It is time to add a new chapter to the Bretton Woods agreement. Private capital flows have become much more important to the international monetary system, and an increasingly open and liberal system has proved to be highly beneficial to the world economy. By facilitating the flow of savings to their most productive uses, capital movements increase investments, growth and prosperity. Provided that it is introduced in an orderly manner and backed by both adequate national policies and a solid multilateral system for surveillance and financial support, the liberalization of capital flows is an essential element of an efficient international monetary system in this age of globalization. The central role of the International Monetary Fund (IMF) in the international monetary system, and its near universal membership, make it uniquely placed to help this process. The Committee sees the Fund's proposed new mandate as bold in its vision, but cautious in implementation.

2. International capital flows are highly sensitive, inter alia, to the stability of the international monetary system, the quality of macroeconomic policies and the soundness of domestic financial systems. The recent turmoil in financial markets has demonstrated again the importance of underpinning liberalization with a broad range of structural measures, especially in the monetary and financial sector, and within the framework of a solid mix of macroeconomic and exchange rate policies. Particular importance will need to be attached to establishing an environment conducive to the efficient utilization of capital and to building sound financial systems solid enough to cope with fluctuations in capital flows. This phased but comprehensive approach will tailor capital account liberalization to the circumstances of individual countries, thereby maximizing the changes of success, not only for each country but also for the international monetary system.

3. These efforts should lead to the establishment of a multilateral and non-discriminatory system to promote the liberalization of capital movements. The fund will have the task of assisting in the establishment of such a system and stands ready to support members' efforts in this regard. Its role is also the key to the adoption of policies that would facilitate properly sequenced liberalization and reduce the likelihood of financial and balance of payments crises.

4. In light of the foregoing, the Committee invites the Executive Board to complete its work on a proposed amendment of the Fund's articles that would make the liberalization of capital movements one of the purposes of the Fund, and extend, as needed, the Fund's jurisdiction through the establishment of carefully defined and consistently applied obligations regarding the liberalization of such movements. Safeguards and transitional arrangements are necessary for the success of this major endeavour. Flexible approval policies will have to be adopted. In both the preparation of an amendment to its articles and in its implementation, the members' obligations under other

international agreements will be respected. In pursuing this work, the Committee expects IMF and other institutions to cooperate closely.

5. Sound liberalization and expanded access to capital markets should reduce the frequency of recourse to Fund resources and other exceptional financing. Nevertheless, the Committee recognizes that, in some circumstances, there could be a large need for financing from the Fund and other sources. The Fund will continue to play a critical role in helping to mobilize financial support for members' adjustment programmes. In such endeavours, the Fund will continue its central catalytic role while minimizing moral hazard.

6. In view of the importance of moving decisively towards this new worldwide regime of liberalized capital movements, and welcoming the very broad consensus of the membership of these basic guidelines, the Committee invites the Executive Board to give a high priority to the completion of the required amendment of the Fund's articles of agreement.

APPENDIX II

Interim Committee attendance

21 September 1997

Chairman

Philippe Maystadt, Deputy Prime Minister, Minister of Finance and Minister of External Trade of Belgium

Managing Director

Michel Camdessus

Members or Alternates

Ahmad Mohd Don, Governor, Bank Negara Malaysia

Ibrahim A. Al-Assaf, Minister of Finance and National Economy, Saudi Arabia

Erik Åsbrink, Minister of Finance, Sweden

Gordon Brown, Chancellor of the Exchequer, United Kingdom of Great Britain and Northern Ireland

P. Chidambaram, Minister of Finance, India

Carlo Azeglio Ciampi, Minister of the Treasury, Italy

Peter Costello, Treasurer, Australia

Dai Xianglong, Governor, People's Bank of China

Rodrigo de Rato Figaredo, Second Vice-President and Minister of Economy and Finance, Spain

Marcel Doupamby Matoka, Minister of Finance, Economy, Budget and Equity Financing, Gabon

Sergei Dubinin, Chairman, Central Bank of the Russian Federation

Roque B. Fernández, Minister of Economy and Public Works and Services, Argentina

Abdelouahab Keramane, Governor, Banque d'Algérie

Sultan Bin Nasser Al-Suwaidi, Governor, United Arab Emirates Central Bank (Alternate for Mohammed K. Khirbash, Minister of State for Finance and Industry, United Arab Emirates)

Pedro Sampaio Malan, Minister of Finance, Brazil

Justin C. Malewezi, Vice-president and Minister of Finance, Malawi

Gordon Thiessen, Governor, Bank of Canada (a.m. session) and James A. Judd, Assistant Deputy Minister, International Trade and Finance, Department of Finance, Canada (p.m. session) (Alternates for Paul Martin, Minister of Finance, Canada)

Jean-Claude Juncker, Prime Minister and Minister of Finance, Luxembourg (a.m. session) and Wolfgang Ruttenstorfer, Secretary of State, Federal Ministry of Finance, Austria (p.m. session) (Alternates for Philippe Maystadt, Deputy Prime Minister, Minister of Finance and Minister of External Trade, Belgium)

Hiroshi Mitsuzuka, Minister of Finance, Japan

Robert E. Rubin, Secretary of Treasury, United States of America

Dominique Strauss-Kahn, Minister of Economy, Finance and Industry, France

Kaspar Villiger, Minister of Finance, Switzerland

Theo Waigel, Federal Minister of Finance, Germany

Gerrit Zalm, Minister of Finance, the Netherlands

Observers

Yilmar Akyuz, Chief, Macroeconomics and Development Policies Branch, United Nations Conference on Trade and Development

Andrew D. Crockett, General Manager, Bank for International Settlements

Yves-Thibault de Silguy, Commissioner for Economic, Monetary and Financial Affairs, European Community

Driss Jettou, Chairman, Joint Development Committee

Donald J. Johnston, Secretary-General, Organisation for Economic Cooperation and Development

Rilwanu Lukman, Secretary-General, Organization of Petroleum-Exporting Countries

Rubens Ricupero, United Nations

Jesús Seade, Deputy Director-General, World Trade Organization

James D. Wolfensohn, President, World Bank
