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TO IMMEDIATE F C O
TELEGRAM NUMBER 174 OF 2 OCTOBER

FOLLOWING FROM UK DELEGATION: PLEASE PASS TO JORDAN-KOSS
AND MICHELL TREASURY.

TEXT OF INTERIM COMMITTEE COMMUNIQUE IS AS FOLLOWS:

I. THE INTERIM COMMITTEE OF THE BOARD OF GOVERNORS OF THE INTERNATIONAL MONETARY FUND HELD ITS THIRTEENTH MEETING IN BELGRADE, YUGOSLAVIA, ON OCTOBER 1, 1979 UNDER THE CHAIRMANSHIP OF MR. FILIPPO MARIA PANDOLFI, MINISTER OF THE TREASURY OF ITALY, WHO WAS SELECTED BY THE COMMITTEE TO SUCCEED MR. DENIS HEALEY, FORMERLY CHANCELLOR OF THE EXCHEQUER OF THE UNITED KINGDOM. MR. JACQUES DE LAROSIERE, MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND, PARTICIPATED IN THE MEETING. THE FOLLOWING OBSERVERS ATTENDED DURING THE COMMITTEE'S DISCUSSIONS: MR. GAMANI COREA, SECRETARY-GENERAL, UNCTAD; MR. RENE LARRE, GENERAL MANAGER, BIS; MR. EMILE VAN LENNEP, SECRETARY-GENERAL, OECD; MR. FRITZ LEUTWILER, PRESIDENT, SWISS NATIONAL BANK; MR. OLIVIER LONG, DIRECTOR GENERAL, GATT; MR. ROBERT S. MCNAMARA, PRESIDENT, IBRD; MR. RENE G. ORTIZ, SECRETARY GENERAL, OPEC; MR. TOMMASO PADOA-SCHIOPPA, DIRECTOR GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS, CEC; MR. JEAN RIPERT, UNDER-SECRETARY-GENERAL FOR INTERNATIONAL ECONOMIC AND SOCIAL AFFAIRS, UN; MR. CESAR E. A. VIRATA, CHAIRMAN, DEVELOPMENT COMMITTEE.

II. THE COMMITTEE DISCUSSED THE WORLD ECONOMIC OUTLOOK AND THE POLICIES APPROPRIATE IN THE CURRENT SITUATION.

CO THE COMMITTEE NOTED THAT EVENTS IN RECENT MONTHS POINTED TO A PERIOD OF REDUCED ECONOMIC GROWTH IN THE INDUSTRIAL COUNTRIES. SIGNS OF A RECESSION IN THE UNITED STATES HAD BECOME STRONGER, AND SOME SLOWING OF ECONOMIC EXPANSION IN THE OTHER INDUSTRIAL COUNTRIES WAS IN PROSPECT. HOWEVER, THE CONTINUATION OF A POSITIVE GROWTH RATE IN THESE OTHER COUNTRIES SHOULD SERVE TO LIMIT THE DEGREE OF THE EXPECTED INTERNATIONAL SLOWDOWN.

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THE COMMITTEE OBSERVED WITH GREAT CONCERN THAT INFLATION THROUGHOUT THE INDUSTRIAL WORLD HAD INTENSIFIED. IN VIEW OF THIS GRAVE THREAT TO ECONOMIC AND FINANCIAL STABILITY, THE COMMITTEE EMPHASIZED THAT THE MAIN TASK OF ECONOMIC POLICY WAS TO CONTAIN INFLATIONARY PRESSURES AND TO REDUCE INFLATIONARY EXPECTATIONS. ONE OF THE IMMEDIATE PROBLEMS WAS TO PREVENT THE RECENT SURGE OF PRICE INCREASES FOR OIL AND OTHER PRIMARY PRODUCTS FROM ADDING TO THE STRENGTH OF INFLATIONARY EXPECTATIONS AND THUS BEING BUILT INTO UNDERLYING RATES OF INCREASE IN WAGES AND PRICES. ACCORDINGLY, THE COMMITTEE NOTED WITH SATISFACTION THAT REDUCTION OF INFLATION WAS BEING GIVEN PRIORITY IN THE ECONOMIC POLICIES OF INDUSTRIAL COUNTRIES, AND IT REITERATED ITS VIEW THAT IN MANY COUNTRIES PROGRESS IN REDUCING INFLATION WAS AN ESSENTIAL PRECONDITION FOR THE RESUMPTION OF VIGOROUS ECONOMIC GROWTH.

ON THE EXTERNAL SIDE, THE COMMITTEE NOTED THE VERY LARGE SHIFTS IN CURRENT ACCOUNT BALANCES THAT WERE OCCURRING BOTH AMONG AND WITHIN GROUPS OF COUNTRIES. WITH THE CURRENT ACCOUNT SURPLUS OF THE MAJOR OIL EXPORTING COUNTRIES EXPECTED TO RISE SHARPLY, A CORRESPONDING DETERIORATION IN THE COMBINED CURRENT ACCOUNT BALANCE OF THE OIL IMPORTING COUNTRIES AS A GROUP WAS OBVIOUSLY IN PROSPECT.

ALTHOUGH THE INDUSTRIAL COUNTRIES WERE EXPECTED TO ACCOUNT FOR MOST OF THIS DETERIORATION IN 1979, THE PROBLEM OF THE DISTRIBUTION OF CURRENT ACCOUNT SURPLUSES AND DEFICITS AMONG THE MAJOR INDUSTRIAL COUNTRIES -- A MATTER OF CONCERN OVER THE PAST FEW YEARS -- NOW APPEARED TO BE RECEDING. THIS IMPROVEMENT IN THE PATTERN OF PAYMENTS IMBALANCES WAS ATTRIBUTABLE IN LARGE PART TO OFFSETTING CHANGES IN DEMAND CONDITIONS IN THE LARGEST COUNTRIES AND TO EFFECTS OF PAST EXCHANGE RATE CHANGES, AND WAS SEEN BY THE COMMITTEE AS IMPORTANT EVIDENCE OF A BETTER WORKING OF THE INTERNATIONAL ADJUSTMENT PROCESS. IN THIS CONNECTION, THE COMMITTEE WELCOMED THE CLOSER COOPERATION IN INTERVENTION POLICIES IN THE EXCHANGE MARKETS.

NOTING THAT THE COMBINED CURRENT ACCOUNT DEFICIT OF THE NON-OIL DEVELOPING COUNTRIES WAS EXPECTED TO INCREASE FROM ABOUT DOLLARS THIRTY TWO BILLION IN 1978 TO DOLLARS FORTY FIVE BILLION IN 1979 AND TO WELL OVER DOLLARS FIFTY BILLION IN 1981, THE COMMITTEE EXPRESSED CONCERN THAT THIS DEVELOPMENT WOULD LEAD TO AN INCREASE IN EXTERNAL FINANCIAL DIFFICULTIES AMONG THESE

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COUNTRIES. PARTICULARLY DISTURBING WAS THE PROSPECT OF A FURTHER RISE IN BEST SERVICE CHARGES, WHICH IN A NUMBER OF DEVELOPING COUNTRIES WERE ALREADY RISING FASTER THAN THE RATE OF INCREASE IN THE BEST ITSELF.

THE COMMITTEE ALSO NOTED WITH CONCERN THE FACT THAT THE WORSENING OF THE EXTERNAL POSITION OF THE NON-OIL DEVELOPING COUNTRIES WAS OCCURRING AT A TIME OF GROWING INTERNAL STRAINS. WHILE ECONOMIC GROWTH IN THE DEVELOPING WORLD WAS IN GENERAL BEING FAIRLY WELL MAINTAINED, IT REMAINED MODEST IN RELATION TO POPULATION GROWTH AND DEVELOPMENTAL NEEDS. MOREOVER, THE PROBLEM OF INFLATION, ALREADY QUITE SERIOUS IN MANY DEVELOPING COUNTRIES, HAD INTENSIFIED IN 1970.

THE SITUATION OF THE NON-OIL DEVELOPING COUNTRIES, THE COMMITTEE OBSERVED, CALLED IN MANY CASES FOR AN IMPROVEMENT IN DOMESTIC FINANCIAL POLICIES. IT ALSO UNDERLINED THE NEED FOR A LARGER FLOW OF EXTERNAL RESOURCES. IT WAS ESPECIALLY IMPORTANT, IN THE COMMITTEE'S VIEW, THAT THE INDUSTRIAL COUNTRIES, IN THE DESIGN OF THEIR ECONOMIC POLICIES, PAY PARTICULAR ATTENTION TO THE ECONOMIC NEEDS OF DEVELOPING COUNTRIES. IN THIS CONNECTION, A WIDE RANGE OF POLICIES WAS SEEN TO BE RELEVANT, INCLUDING THE REDUCTION OF PROTECTIONIST MEASURES; THE OPENING OF IMPORT MARKETS TO EXPORTS OF MANUFACTURES AND COMMODITIES FROM DEVELOPING COUNTRIES AND OF CAPITAL MARKETS TO OUTFLOWS OF FUNDS TO SUCH COUNTRIES; AND MEASURES TO GIVE NEW IMPETUS TO THE FLOW OF OFFICIAL DEVELOPMENT ASSISTANCE, WHICH HAD STAGNATED IN RECENT YEARS.

III. THE COMMITTEE REITERATED ITS VIEW ON THE NECESSITY OF AN ACTIVE EXERCISE BY THE FUND OF ITS SURVEILLANCE AUTHORITY AS A MEANS OF STRENGTHENING THE ADJUSTMENT PROCESS.

IV. THE COMMITTEE NOTED WITH SATISFACTION THAT SINCE ITS LAST MEETING THERE HAD BEEN A NUMBER OF DEVELOPMENTS THAT ENHANCED THE FUND'S ABILITY TO PROVIDE BALANCE OF PAYMENTS ASSISTANCE TO ITS MEMBERS. IT WELCOMED THE ADOPTION BY THE EXECUTIVE BOARD OF A NEW SET OF GUIDELINES ON THE CONDITIONALITY APPLICABLE TO THE USE OF THE FUND'S GENERAL RESOURCES IN THE UPPER CREDIT TRANCHES AND THE IMPROVEMENTS IN THE FUND'S SUPPLEMENTARY FINANCING FACILITY,

INCLUDING THE INCREASE IN THE MAXIMUM AMOUNT OF COMPENSATION THAT COULD BE OBTAINED UNDER THAT FACILITY.

THE COMMITTEE ALSO NOTED WITH SATISFACTION THAT, SINCE THE SUPPLEMENTARY FINANCING FACILITY BECAME OPERATIONAL IN FEBRUARY, THE FUND HAS BEGUN TO USE THE ADDITIONAL FINANCIAL RESOURCES WHICH HAVE BEEN PUT AT ITS DISPOSAL TO PROVIDE MEMBERS EXPERIENCING DIFFICULT ADJUSTMENT PROBLEMS WITH ASSISTANCE IN LARGER AMOUNTS AND FOR A LONGER PERIOD THAN COULD BE MADE AVAILABLE UNDER THE REGULAR CREDIT TRanches. IN THIS CONNECTION, THE COMMITTEE, LIKE THE DEVELOPMENT COMMITTEE, ASKED THE EXECUTIVE BOARD TO GIVE ATTENTION TO DEVELOPING WAYS AND MEANS OF LOWERING THE INTEREST COSTS OF THE SUPPLEMENTARY FINANCING FACILITY.

THE COMMITTEE ALSO AGREED WITH THE REQUEST OF THE DEVELOPMENT COMMITTEE TO THE EXECUTIVE BOARD TO GIVE FURTHER CONSIDERATION TO INCREASING THE MAXIMUM REPURCHASE PERIOD IN RESPECT OF PURCHASES UNDER THE EXTENDED FUND FACILITY FROM EIGHT TO TEN YEARS.

THE COMMITTEE AGREED TO KEEP THE ADEQUACY OF THESE MEASURES UNDER REVIEW.

V. THE COMMITTEE RECOGNISED THAT THERE WAS A CLEAR NEED FOR BROAD MULTILATERAL EFFORTS TO ASSIST MEMBER COUNTRIES IN COPING WITH THE VERY DIFFICULT SITUATION AHEAD. IN THIS CONTEXT THE PROGRAM OF IMMEDIATE ACTION OUTLINED BY THE GROUP OF 24 AND ENDORSED BY THE GROUP OF 77 WOULD BE KEPT IN VIEW.

VI. THE COMMITTEE NOTED THE SLOW PROGRESS IN THE IMPLEMENTATION OF THE INCREASES IN QUOTAS APPROVED UNDER THE RESOLUTION OF THE FUND'S BOARD OF GOVERNORS ON THE SEVENTH GENERAL REVIEW OF QUOTAS. IN VIEW OF THE IMPORTANCE OF AN EARLY IMPLEMENTATION OF THESE INCREASES IN QUOTAS, THE COMMITTEE URGED THOSE MEMBERS, ESPECIALLY THOSE WITH THE LARGER QUOTAS, THAT HAVE NOT YET TAKEN ACTION THAT WOULD ENABLE THEM TO CONSENT TO THE INCREASES IN THEIR QUOTAS, TO DO SO AS PROMPTLY AS POSSIBLE.

/s/ V. H. H. E.

VII. THE COMMITTEE CONSIDERED THE REPORT SUBMITTED BY THE EXECUTIVE BOARD ON THE QUESTION OF A SUBSTITUTION ACCOUNT IN ACCORDANCE WITH PARAGRAPH 6 OF THE COMMITTEE'S COMMUNIQUE OF MARCH 7, 1979. SUCH AN ACCOUNT, ADMINISTERED BY THE FUND, WOULD ACCEPT DEPOSITS OF U.S. DOLLARS FROM MEMBERS OF THE FUND AND CERTAIN OTHER OFFICIAL HOLDERS IN EXCHANGE FOR AN EQUIVALENT AMOUNT OF SDR-DENOMINATED CLAIMS. IN THE LIGHT OF THE REPORT SUBMITTED BY THE EXECUTIVE BOARD, THE COMMITTEE CONCLUDED THAT SUCH AN ACCOUNT, IF PROPERLY DESIGNED, COULD CONTRIBUTE TO AN IMPROVEMENT OF THE INTERNATIONAL MONETARY SYSTEM AND COULD CONSTITUTE A STEP TOWARD MAKING THE SDR THE PRINCIPAL RESERVE ASSET IN THE SYSTEM.

IN ORDER FOR THE ACCOUNT TO ACHIEVE WIDESPREAD PARTICIPATION ON A VOLUNTARY BASIS AND ON A LARGE SCALE, AMONG OTHER THINGS, IT SHOULD SATISFY THE NEEDS OF DEPOSITING MEMBERS, BOTH DEVELOPED AND DEVELOPING, ITS COSTS AND BENEFITS SHOULD BE FAIRLY SHARED AMONG ALL PARTIES CONCERNED, AND IT SHOULD CONTAIN SATISFACTORY PROVISIONS WITH RESPECT TO THE LIQUIDITY OF THE CLAIMS, THEIR RATE OF INTEREST, AND THE PRESERVATION OF THEIR CAPITAL VALUE.

THE COMMITTEE, NOTING THE PROGRESS THAT HAS BEEN MADE AND RECOGNISING THAT A NUMBER OF ISSUES REMAIN TO BE RESOLVED, ASKED THE EXECUTIVE BOARD TO CONTINUE TO DIRECT PRIORITY ATTENTION TO DESIGNING A SUBSTITUTION ACCOUNT PLAN IN ACCORDANCE WITH THE PRECEDING PARAGRAPHS AND IN LIGHT OF THE VIEWS EXPRESSED BY THE MEMBERS OF THE COMMITTEE, AND TO REPORT PROGRESS TO THE NEXT MEETING OF THE INTERIM COMMITTEE.

VIII. THE COMMITTEE AGREED TO HOLD ITS NEXT MEETING IN HAMBURG, GERMANY, ON APRIL 25, 1980.

IX. THE COMMITTEE EXPRESSED THEIR WARM APPRECIATION FOR THE HOSPITALITY OF THE GOVERNMENT OF YUGOSLAVIA AND FOR THE EXCELLENT ARRANGEMENTS PROVIDED FOR THE MEETINGS.

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