

**BOARDS OF GOVERNORS • 1983 ANNUAL MEETINGS • WASHINGTON, D.C.**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL FINANCE CORPORATION  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
INTERNATIONAL MONETARY FUND

Press Release No. 7

September 27, 1983

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UNTIL DELIVERY

Statement by the Hon. GERASIMOS ARSENIS, Minister of  
National Economy and Governor of the Bank and Fund for GREECE,  
on Behalf of the Member States of the European Communities,  
at the Joint Annual Discussion

I have the honor of addressing these meetings on behalf of the member states of the European Communities.

Recent Developments

Since last September the world economic environment has become more differentiated. On the one hand, evidence of an economic upturn has grown consistently firmer over the last months in some industrial countries, especially in the United States, where recovery seems to be quite significant, and there are also prospects for a further abatement of inflationary pressures. The emerging recovery should help slow, if not reverse, the rise in unemployment, which has reached tragically high levels in many countries. On the other hand, high interest rates are hampering the investment necessary for a sustainable recovery. True, nominal interest rates have declined considerably from their peaks of 1982, but real interest rates remain high by historical standards.

As far as the Community is concerned, recovery is expected to be rather modest, although the prospects are very different from one member state to another.

At the same time developing countries exhibit an unsatisfactory growth record, which is attributable to adverse external developments as well as to domestic factors. The Community is also concerned with the severe impact of these external developments on the payments situation of many developing countries, in particular, the effects of the past sharp deterioration in their terms of trade.

External indebtedness has continued to grow in a number of countries while debt servicing problems have been accentuated. This has been accompanied by a substantial slowdown in the growth of commercial bank lending to certain developing countries. Most of these countries have

now recognized that adjustment of their own policies and performance is essential. We welcome the initiatives taken by the International Monetary Fund in providing and helping to mobilize support for these countries, conditional on effective measures of adjustment, and the efforts made by all parties concerned in bringing constructive solutions to individual cases of debt problems. We are also conscious that an orderly solution of debt problems will be greatly helped by an improving world economic environment.

This difficult situation, in both industrial and less developed countries, is further complicated by uncertainties over the future course of world interest rates, and by uncertainties linked to the volatility of the dollar, the recent rise of which has adversely affected the terms of trade of many countries. These developments are heavily influenced by financial policies in the United States.

All these difficulties may threaten the sustainability of the present recovery as well as its capacity to spread its benefits worldwide. The Community is endeavoring, in this context, to pursue policies designed to consolidate its incipient recovery.

#### Interdependence and Economic Policies

The various manifestations of the present difficulties have once again brought to our attention the growing interdependence of our economies and thus the international dimension of national policies.

We are all aware of the fact that the restoration of sustained and noninflationary growth in the industrial countries is essential to complement and enhance the adjustment efforts of debtor countries. At the same time we cannot underrate the fact that debt servicing problems cause severe strains in the international financial system and that orderly solutions to these problems, and renewed growth in developing countries, will in turn strengthen the recovery in the industrial world.

It has been part of the European Community strategy to bring these issues to the attention of the world community and to underline the responsibility we all share in selecting our policies. In a period of increased uncertainty, the need for a coherent and harmonized approach to international economic policy is greater than ever.

Accordingly, we welcome the declaration by the heads of state at the Williamsburg summit, and in particular the recognition that the principal industrial countries must act together to pursue a balanced set of monetary and budgetary policies in order that the recovery may spread throughout the globe. Where the underlying circumstances have improved, a priority aim of policy should be to strengthen recovery in a noninflationary way and to promote employment.

The cornerstones of international cooperation are effective policy coordination among industrial countries and adherence to our international commitments.

In designing our policies we should take a more global point of view by recognizing the greater interdependence among all economies; in particular, due consideration should be given to international repercussions of domestic economic policies. In the monetary field, the European Monetary System (EMS) has already demonstrated the potential benefits of such concerted efforts. It has encouraged more convergence in EEC member countries' economic policies and in the implementation of orderly adjustments. The introduction of the System has thus brought more monetary stability, and we hope that this stabilizing influence will spread to the exchange rates of other currencies that have close ties to EMS participants. The EEC member states will, of course, play their full role in any discussions that may take place for the improvement of the international monetary system more generally.

Coordinated policies should strive:

--to attain a more appropriate fiscal-monetary policy mix so as to counter inflation and permit a reduction in both nominal and real interest rates;

--to secure orderly conditions in exchange markets through the adoption of compatible economic policies, especially by key currency countries;

--to increase productive investment and to adopt positive adjustment policies that will foster the current recovery;

--to reverse protectionist trends, to relax restrictions, and to create conditions for the enhancement of world trade. In particular, it is necessary for developed countries to improve market access to the exports of developing countries. It is also necessary for the latter group to liberalize their own foreign trade as much as possible;

--to strengthen the ability of multilateral financial institutions to assist member countries;

--and to secure continuing and substantial official aid as well as other financial flows to developing countries and the LLDCs (least developed countries) in particular.

The Community remains firmly committed to an open multilateral trading system, and despite the present international difficulties it will continue to pursue a trade policy that ensures the openness of its markets.

#### International Monetary Fund - Related Issues

The IMF has an important role to play in strengthening our efforts to ensure a world recovery and a return to economic stability through surveillance of exchange rate policies and as a source of temporary

financing. This temporary financing should aim to promote adjustment and serve as a catalyst of complementary financial flows from other official and private sources.

In spite of the increased efforts toward adjustment, the balance of payments deficits of many countries remain substantial while the means of financing them have contracted, essentially owing to the reduction in commercial bank lending, particularly to the developing countries. Thus, many of these countries have been confronted with liquidity strains and this has been reflected in the decline in world liquidity.

The demand for Fund credits has increased sharply while the liquidity of the Fund has deteriorated. We in the Community recognize the importance of the Fund being adequately provided with resources at this time of unusual strains in the world economy. The forthcoming quota increase and the enlargement of the General Arrangements to Borrow (GAB) will constitute a timely and needed strengthening of the resources available to the Fund. The Community member states are taking all necessary steps to ensure that the revised GAB and the quota increase will come into effect in any event before the end of 1983, and we hope that other countries will do the same. We feel that the Fund should remain primarily quota-based, and that its revolving character should be preserved.

We are convinced that the successful implementation of Fund-supported adjustment programs by countries that have been confronted with major disequilibria will progressively lead to a better balance of payments situation and smooth out the demand for Fund lending. Still, over the next years, there will clearly be a need to keep the adequacy of the Fund liquidity and the scale of Fund lending under close review. The Community urges all countries to assume their full responsibility in this context.

The countries of the Community contributed actively to the discussions which led to the conclusions of the Interim Committee regarding the continuation of the policy of enlarged access. Although current account imbalances have declined, the world payments situation still makes it appropriate to continue enlarged access for a further period. The conclusions reached take into account the liquidity position of the Fund. They also take into account the borrowing requirements of members and allow increased access depending on the seriousness of their balance of payments needs and on the strength of their adjustment effort.

Conditionality should continue to place adequate emphasis on the improvement of supply conditions and the strengthening of the productive base. The Fund should continue to take into account the economic and social priorities of the countries concerned. The Community endorses the current practice of the Fund as far as conditionality is concerned.

The Community will formulate its position on the advisability of an SDR allocation in the light of the present circumstances and of all relevant provisions of the Fund's Articles of Agreement. We are of the opinion that this is a matter of high priority.

The Community welcomes the steps taken by the Fund to strengthen its surveillance over members' exchange rate policies. It underlines the importance that it attaches to an active exercise of the surveillance function in order to promote sound and internationally compatible policies by member countries.

#### World Bank

The Community favors the World Bank's continuing to engage actively in cofinancing with public and private institutions and to cooperate with the IMF, inter alia, in its structural adjustment programs. The Community welcomes the Special Assistance Program agreed by the World Bank in February 1983, and notes the intention of the Bank management to propose expansion of the Bank's program beginning in 1985.

Member states of the Community have shown their support for the International Development Association by supplementing its resources in the past, and favor an adequate level of Seventh Replenishment to enable the Association satisfactorily to continue its action in support of the poorest countries. The Community therefore urges governments to make every effort to ensure that the IDA Replenishment becomes effective by July 1, 1984.