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Joint IMF-World Bank Meeting Offers Mixed Results

by LADB Staff
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Finance ministers and central bank directors meeting in Washington Sept. 25-Oct. 3 for the annual joint meeting of the International Monetary Fund (IMF) and the World Bank, left for respective home countries with the assurance that policy changes by these leading institutions (and by most member nations) were not imminent.

On the one hand, disagreements between the Reagan administration and the governments of trade surplus nations mainly West Germany and Japan were once again aired, with both sides expressing unwillingness to change course. On the other, developing nation representatives expressed familiar discourse on the seriousness of their economic difficulties, exacerbated by enormous foreign debt burdens. Demands for the reduction of protectionist tendencies, more liberal payment terms on the debt, and changes in policy formulas advocated by creditor governments, multilateral institutions and private banks were also heard. Little evidence of the type of response to such demands was seen at the meeting.

In the following, highlights of speakers' commentary heard during the joint meeting are presented: Sept. 28-29:

During preliminary interim sessions before the IMF-World Bank joint meeting, the Reagan administration was called on to reduce its federal deficit, while West Germany and Japan were requested to cut interest rates in order to stimulate domestic demand, and thereby increase imports. Participants in the preliminary meeting seemed to agree that the huge US balance of payments deficit and the large trade surpluses of Japan and West Germany cannot be sustained without risking future world economic growth. The two sides could not agree on appropriate short-term actions to deal with the problem.

Officials from trade surplus nations argue that economic growth is already on the upswing, and therefore, interest rate reductions are not necessary. The US and trade surplus nations also disagreed on whether intervention to prevent the US dollar from falling further is warranted. The IMF policy-making interim committee reported after two days of conference that "current account imbalances have to be reduced, not least because of their role in encouraging protectionist pressures."

The US was called on to reduce the federal budget deficit, and nations with trade surpluses were requested to implement policies geared to stimulating economic growth. US Treasury Secretary James Baker told the interim committee Sept. 28 that the US had done its part, and that it was now up to other countries "to act responsibly."

The interim committee participants also discussed surveillance of IMF member nation economies via the establishment of a set of economic indicators to help make the exercise more effective. The
Interim Committee communique issued on Sept. 29 indicated that the IMF has decided to retain its program for debtor nations called "enlarged access" through 1987 with present access limits unchanged. The Committee said the Fund had enough money to continue the program, which lends more money to debtor countries under special conditions than is permitted by the limits applied to regular programs.

Nevertheless, the committee intends to keep the program temporary. Next, the group urged commercial banks to fulfill their responsibilities toward alleviating the debt crisis by lending debtors more money, and welcomed increases in multilateral agency financial assistance and export credits. The committee noted that the export earnings of the developing nations have been severely affected by recent declines in oil prices and continued deterioration of other commodity prices. It added that following the recovery of 1984, the growth rate of developing nations dropped in 1985, and is expected to fall further in 1986.

Next, the debt export ratio of debtor countries which fell in 1984, rose again in 1985 and seems likely to rise again in 1986 to a higher level than that prevailing throughout the debt crisis. The importance of implementing the debt strategy introduced at last year's meeting in Seoul was emphasized. The position of the US on this matter was reiterated: 1) debtor nations must implement structural adjustment policies; 2) export markets must expand; and 3) adequate external financing for growth-oriented adjustment programs must be made available.

Addressing the IMF development committee on Sept. 29, Treasury Secretary James Baker said that while the "world is right" to demand that the US reduce its budget deficit, it must also be recognized that the US cannot increase its assistance to the world. In contrast, he said, there are means to be explored in which the world can make the most out of the money the United States does make available for development assistance. He pointed out that the IMF and World Bank have made notable contributions in working with debtor nation governments to devise market-oriented programs which will attract support from public and private lenders. Six new IMF standby programs and nearly $3 billion in World Bank policy-based loans have been negotiated during the past year with the major debtor nations.

Negotiations on additional standby programs with two other key debtor nations are likely to begin soon, while the World Bank has discussions underway for an additional $5 billion in policy-based loans to these nations. According to Baker, the sharp decline in interest rates since 1984 will provide $14 billion in debt service savings for the major debtor nations, more than offsetting the impact of lower prices for non-oil commodities in their ability to service their debt.

Next, he stated that additional steps will be needed to extend and strengthen the structural reform efforts now underway within the debtor nations particularly in the areas of privatization, tax reform, investment, and trade. The secretary argued that the trend toward debt/equity swaps and other forms of debt conversion as well as development of domestic capital markets should be encouraged, in particular by the IMF and World Bank. In regard to the World Bank's central role in providing debtor nations with financial resources, he said the Reagan administration will move quickly to negotiate a general capital increase if there is a demonstrated need. He added, however, that the administration does not believe such need exists at present.
Baker pointed out that the Bank has ample capacity to meet projected lending levels. The Reagan administration has raised questions about the quality of some of the loans made last year, and remains concerned that quality not be sacrificed to boost quantity. As a result, he said, the US advises against discussions to increase capital to the Bank at this time. In terms of development assistance in general, he said "we recognize that the availability of external finance will be a constraint on the growth and development of developing countries. Simply put, our position is that we would like to do more, but we face severe budgetary constraints."

Sept. 30: World Bank President Barber Conable's address indicated that he is not likely to introduce any drastic policy changes. In his opening address, he said the Bank "needs not a new direction, but a renewed drive, a reinvigorated dedication of its original and enduring purpose." He added, "We are a force for development, not primarily an agency for debt management."

Conable provided an outline of Bank strategy:

1) Commitment to shield the development process from the volatility of global financial markets and aid flows. "In too many nations too many resources meant for development are being diverted into debt service."

2) "Thoughtful mix" of project lending and adjustment lending. "What good can agricultural reforms do if inadequate irrigation leaves farmland parched or inadequate transport leave farm produce to rot in storage?"

3) Commitment to strengthen the Bank as source of project lending, particularly in agriculture. "We will regard agricultural development in the poorest nations as central and critical in the battle against poverty." He said basic investment in development remains the key to sustained economic growth, and this means investment in farm equipment, land reform, fertilizer, seeds and crop research.

4) Pledge to commit to long-term development, particularly in relation to issues of population, environmental protection, and ensuring that women benefit from development programs. "It is clear that population pressures are one source of heavy environmental damage, so we must provide training to give women the skills to take charge of their productive and reproductive lives. And it makes little sense to fund agricultural extension services and credit programs in Africa that do not reach the real farmers, the women who do the work."

5) Commitment to maintain flexibility in the design and management of bank activities. In this regard, Conable said he places particular importance on the International Finance Corporation the World Bank affiliate that encourages private sector equity investments in developing nations. He pointed out that while total World Bank lending increased 16% in the fiscal year ending June 30, 1986 lending to 10 highly indebted nations that have launched adjustment programs increased by 47%.

In his opening address, Colombian President Virgilio Barco declared that while developing nations have been implementing drastic economic reforms, private banks simultaneously cut back on
loans at a time when financial assistance is absolutely crucial. He called on creditor governments, multilateral financial institutions and private banks to assume more productive roles in assisting the developing world toward economic recovery.

Spokesperson for Latin America, the Phillipines and Spain at the meetings, Argentine Economy Minister Juan Sourrouille, delivered a call for joint responsibility for the economic recovery of the world's debtor nations. After presenting a detailed summary of the dire economic circumstances of Latin American nations, he declared that the debt crisis was created largely as a result of industrialized nation government policies. In the past five years, he said, developing nations have undertaken "formidable efforts" to solve their problems, but the same has not occurred in developed countries. Sourrouille called for increased capital flows to Latin America from all creditor entities as the only means to reinitiate economic growth.

Oct. 3: The joint meeting ended with reiteration by developing nations of demands for new loans based on more liberal repayment conditions. Developing nation spokespersons complained that continuing high interest rates and the slow growth of the world's major industrialized economies was effectively increasing their debt burdens. They pointed out that the original objective of requesting large foreign loans in the past was to create a secure economic base for the expansion of economic and social programs.

Since then, as a result of world economic decline, and industrialized nations' inward-looking policies, economic and financial difficulties are currently worse than before the loans were contracted. The Romanian representative suggested that private banks and international loan agencies simply cancel the debt of the world's poorest nations, and establish a debt service payment ceiling of no more than 10% of export revenues for developing nations in better conditions. Manuel Esquivel, prime minister of Belize, said IMF and World Bank programs are oriented to the needs and circumstances of the major debtor nations.

Meanwhile, he added, insufficient attention is paid to the peculiar circumstances and situations of small debtor nations. This leads to economic policy dictates "that do not correspond to our illnesses, and as a result we become even sicker."

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