MONETARY COMMITTEE

OF THE EUROPEAN COMMUNITIES

TWENTY-SIXTH REPORT ON THE ACTIVITIES

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Twenty-sixth report on the activities of the Monetary Committee

I. General economic situation

1. The revival in economic growth spread during 1984 and gained significantly in strength. It was evident especially in industrialized countries, but the developing countries too were drawn into the recovery process of the world economy. This recovery, together with the adjustment efforts of these countries, enabled them to improve their balance of payments performance, but their external financial position continued to be difficult. World trade grew by 9 % in real terms in 1984, the highest rate for eight years. At the same time it was possible to make further progress in reducing inflation.

2. The decisive factor in the strong expansion of the world economy was the impetus provided by economic growth in the United States. Although domestic demand rose as well in some other industrial countries, it is true that, in 1984, the key US disequilibria (the current account deficit and the budget deficit) deteriorated and that the rise of the dollar and the very high level of interest rates, at least up to the autumn, at times restricted the Community countries' room for manoeuvre in economic policy, especially in the monetary field. Overall, however, the pull exerted by US import demand, and the high dollar, had a favourable effect on the Community economy, without imported inflation taking place to the extent that was feared.

3. The still modest upturn in economic activity in the Community countries, which was supported by external demand, but also by investment, was promoted by the fact that simultaneously progress was made on internal price and cost evolutions, thereby providing improved conditions for lasting and balanced growth. Externally, the balance of payments equilibrium already achieved for the Community as a whole in 1983 was maintained, although the differences between countries still remained substantial. All in all, 1984 was a year in which the adjustment measures began to bear fruit. The Community's gross national product increased by a good 2 % in real terms in 1984. Although this brought with it a small rise in employment, the already extremely high unemployment grew still further due principally to the large increase in the working population.

4. The convergence of economic policy stances and of performances in the individual countries, which is so important for the EMS, helped to strengthen the exchange rate system substantially in 1984. This is particularly true for the convergence of inflation rates to a lower level. The inflation differentials between EMS countries narrowed once again, but further progress has still to be made. It was also possible to improve incomes developments in most of the countries, so as to help firms' competitiveness and hence encourage investment. There was on the whole a less marked improvement in the stabilization and consolidation of government finances, although most of the EMS countries once again managed to achieve some reduction in the central government borrowing requirement as a proportion of GDP. However, the progress in convergence achieved in 1984 was undoubtedly facilitated by a favourable international environment, connected in particular with the attraction exerted on capital flows by the behaviour of the dollar; even so it was not such as to allow the member countries to relax their efforts to bring economic performances more into line with one another. The Committee believes in any case that convergence is not a permanent condition that is achieved once and for all and continues of its own accord. Rather, convergence threatens daily to fade away again and must therefore constantly be regained and secured through new efforts.

5. Monetary policy, especially in the countries that are still confronted with appreciable inflationary pressure, was a central element of economic policy. In Italy, it actually had to bear the main burden of the struggle against inflation. Monetary growth slowed down in most of the countries and on the whole followed a satisfactory trend. In cases where the monetary policy targets were overshot, the monetary authorities tolerated the situation in so far as stronger real economic growth compared with the original forecasts or structural changes in credit demand lay behind it.

II. The main fields of action of the Committee

6. In 1984, the Committee focused its attention on the following tasks in particular:

(i) First, it dealt with the improvement of convergence and fundamental economic factors, which constitutes one of the essential conditions for strengthening the cohesion of the exchange rate framework of the EMS.

(ii) Secondly, the Committee regularly carried out its examinations of individual countries, and it continued to draw the necessary conclusions from these in 1984. Similarly, it continued its horizontal coordination efforts, which it undertakes in mid-year with regard to the coherence of monetary policies and towards the end of the year in respect of the coordination of monetary targets.

(iii) Thirdly, in a year in which there was considerable progress in convergence, it was appropriate to review the five years of operation of the EMS and to initiate thinking on ways of strengthening it. The Monetary Committee was also able to start discussion on the scope — neglected for many years — for liberalizing capital movements in the Community. The room for manoeuvre for further developments in the use of the ECU is still not known precisely; the Committee will take up this question again in order to investigate it thoroughly.

(iv) Fourthly, international economic and monetary relations as usual raised questions which called for detailed discussion. As is stipulated in a Council Decision dating from 1964, the Monetary Committee is the body responsible for the necessary consultations 'in respect of any important decision or position taken by Member States in the field of international monetary relations'.

7. In the examinations of individual countries and in the Community-wide analyses, a broad consensus was reached, as last year, on the diagnosis of the problems and on economic policy priorities. As always, one of the main points of reference in looking at economic policy was an analysis of the developments in the money supply and its counterparts. Inclusion of the counterparts of the money supply is important in two respects. First, this approach makes it possible to determine rapidly where the causes of a possible overshooting are and where the areas for applying corrective action lie. Secondly, it extends the field of vision to include key areas of economic policy such as budgetary policy: it is important to take account of the repercussions of these areas on monetary policy. Of course, the influences by and on the money supply work in both directions. Particularly in cases where monetary policy carries the main burden in the struggle against inflation, it is important that other policies enable the maintenance of control over the counterparts of money creation, for instance the budget deficit.

Expanding on what was said in the last report on the Committee's activities, the following four guiding principles are of importance in this context:

(i) In countries with a high rate of price inflation and/or a large public deficit, in which monetary growth has been brought down partly with the aid of financial innovations through the development of relatively liquid financial instruments, which can develop a velocity of circulation of their own, it is necessary to take account of the importance of this phenomenon in assessing the evolution of the monetary aggregates.

(ii) In countries with large balance of payments deficits on current account, it is not enough to ensure that the rate of monetary expansion is apparently consistent with the guidelines; the expansion of domestic credit and the external counterpart of monetary creation must also be closely monitored. Rapid domestic credit expansion that pulls in more imports and fuels outflows of capital is incompatible with a balanced development of the economy.

(iii) In the countries where official external borrowing has traditionally been high and accompanied by a substantial external deficit, problems of domestic monetary control may occur if the external account improves faster than the budget deficit. In such cases, it is appropriate to reduce public foreign indebtedness gradually and to switch to more non-monetary financing of the persistent public deficit, accepting the consequences described at (iv) below.

(iv) In countries where credit to the public sector is the main source of monetary creation, the achievement of monetary expansion consistent with stability represents a very difficult problem, requiring either a substantial squeeze on private sector borrowing or the acceptance of excessive domestic credit expansion accompanied by the destruction of liquidity by the external sector, or some combination of these two. More use of non-monetary financing for the public sector would be a first step in the right direction; high long-term interest rates would then reveal more clearly the fact that the financial demands of the public and private sectors are in competition for the limited supply of savings. In the final analysis, the only way out of the dilemma is to reduce the public deficit.

8. In the spring of 1984, on the occasion of the fifth anniversary of the EMS, the Chairman of the Committee presented to the Ministers for Economic and Financial Affairs a review of five years of operation of the European Monetary System. He emphasized in particular that the stabilizing effect of the EMS goes hand in hand with two important innovations. First, member countries' exchange rate policies have effectively been treated as a matter of common concern: central rates and realignments are solely the result of common decisions. Secondly, the EMS has made it possible at realignments to avoid an overshooting of the changes justified by fundamental economic factors and hence to prevent distortions of competition caused by exchange rates.

At an informal meeting of Ministers for Economic and Financial Affairs at Rambouillet in May 1984, a number of proposals for strengthening the EMS were put forward within the framework of this review, and the Monetary Committee and the Committee of Central Bank Governors were entrusted with the task of examining them. Some of the proposals have since been put into effect.

In view of its function and the particular legal situation of the EMS, the Committee had a special role to play in preparing the examination of the weights of the currencies in the ECU. At a special meeting at the beginning of September, the Committee put forward proposals for revising the composition of the ECU. The Greek members took the opportunity to apply for the inclusion of the drachma in the ECU, pursuant to the Accession Treaty. At the same time, they affirmed that such a step would strengthen economic policy and monetary cooperation within the Community. The Greek authorities undertook the obligation to guarantee sufficient possibilities for forward transactions in drachma in relation to its weight in the ECU basket. The Committee took the view that the revision of the weighting should be decided on and carried out rapidly, so as to prevent any disruptive monetary effects. On 17 September 1984, the Council decided on a corresponding revision of the ECU, and this was implemented immediately, allowing a smooth transition.

The negotiations on the enlargement of the Community meant that the question of the possible inclusion of the peseta and the escudo in the ECU had to be dealt with once again in 1984. The Monetary Committee confirmed its earlier Opinion and emphasized that any such decision must take account of the need to ensure the stable development of the role and uses of the ECU. This means that the countries participating in the EMS could propose to defer the inclusion of one of these currencies at that time, if such an inclusion were to create disturbances in the European Monetary System.

9. A free capital market with maximum harmonization of legal provisions would promote the development of a unified internal market within the Community. Above all, though, the liberalization of capital movements would reinforce the pressure to adjust economic policies and thus serve to strengthen the EMS. As part of its work on how to strengthen the EMS, the Committee endeavoured to get the liberalization of capital movements under way again and pointed out that the goal of liberalizing capital movements is an obligation under the Treaty of Rome. For many years liberalization on the Community's capital markets has fallen well behind that on the other markets. However, overrapid liberalization of capital movements could in certain circumstances pose dangers for the stability of exchange rates. The Monetary Committee therefore favours a gradual and active liberalization.

Even so, the convergence achieved in Member States' economic policies in the last years has opened up much greater scope for step-by-step liberalization of capital movements. In Denmark, the existing restrictions were largely removed in 1984. In France and Italy too, it became possible at the end of 1984 to embark on the liberalization of capital movements with some initial selective measures.

Pursuant to its statutory obligations, the Committee set up a process of reviewing existing restrictions more closely and decided in particular on the following:

(i) At least once a year and in December at the latest, the existing restrictions on capital movements will be examined. The purpose of the examination will be to determine which restrictions it is possible to remove.

(ii) Recourse to or, as the case may be, a renewal of recourse to the safeguard clauses should in future be allowed only for a limited period.

(iii) As part of the Committee's examinations of individual countries, the relevant country's justification for applying the safeguard clauses should be examined particularly in the light of balance of payments developments.

The Monetary Committee invited the Commission to continue to take an active role in the process of capital liberalization as it already has with its measures of December 1984.

10. On international monetary questions, the Committee as usual prepared the statements made on behalf of the Community to the IMF Interim Committee and to the annual meetings of the IMF and the World Bank. The focus of activity shifted in 1984 to the Group of Ten — comprising the main Western industrialized countries — which undertook a thorough examination of the conditions for improving the functioning of the international monetary system. The Community countries, through their contributions and as a result of holding the chair within the Group, took a major role in the progress of this work, various aspects of which were the subject of a prior exchange of views within the Monetary Committee. Consideration of how the international debt problem should be dealt with further was a key focus of attention in 1984. Thanks to the progress made so far in achieving stabilization, it was possible to turn attention more towards the medium-term outlook.

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Ph. Jurgensen (until 31.8.1984)	Directeur-adjoint du Trésor, Ministère de l'Economie, des Finances et du Budget (Paris)
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European Communities Washington, 12 April, 1984

Statement by Mr Jacques Delors, chairman of the Council of the European Communities, to the IMF Interim Committee meeting

I have the honour to address this meeting on behalf of the countries of the European Economic Community.

Our intention is to deliver a message of optimism, pragmatism and hope:

(i) optimism as regards the short-term prospects for the world economy (I);

(ii) pragmatism as regards the choices we have to make jointly (II);

(iii) hope that we will be able to come to grips with and overcome the risks that await us in the longer term (III).

I. The world economic setting is now distinctly more favourable

Since we met last fall, the world economic scene has clearly brightened up. Following years of stagnation and recession, major industrial economies are once again set on a path of renewed growth. Economic activity in the United States continues to be buoyant. In Europe, too, the expansionary forces have been gaining strength although with differentiation among countries. In the Community as a whole, GNP, in 1984, is expected to grow by about 2% and activity is likely to further accelerate next year.

The faster pace of activity in Europe, while, no doubt, supported by the expansion in the United States, is also being spurred by the improvement achieved in the underlying domestic conditions for growth. However, for the EEC as a whole, the recovery is to date well below the US rate and has, so far, only led at best to a stabilization rather than a fall in the underlying rate of unemployment. Improved policy coordination between all the industrialized countries would facilitate a more rapid and broader based recovery to the advantage of the world economy generally.

The recovery is so far more modest in the developing countries, and some regions primarily in Africa, remain in serious economic stagnation. Nevertheless, participation of the non-oil developing countries in world trade flows is showing an appreciable improvement in two respects:

(i) the reduction in their overall external current deficits which occurred in 1983, due to the growth in their exports as well as to the contraction in imports;

(ii) the upturn in the prices of commodities, which are still a key source of export earnings for numerous developing economies.

Provided that the world economic environment continues to improve and also the headway made on the adjustment continues, many developing countries, too, can expect to see a gradual resumption of growth.

At the same time, the oil-producing countries, which have undertaken major efforts at domestic adjustment and at cooperation to reduce market fluctuations, seem to be returning to a more orderly growth path.

These initial results are all the better founded in that they owe little to easy remedies and are accompanied by a continuing and successful drive against inflationary factors.

In general, monetary policy remains firmly committed to keeping credit expansion and money creation under control. Increased wage restraint has contributed to the gains on inflation. There is increasingly wide recognition of the priority that needs to be accorded to productive factors. Moreover, a large number of economies have made significant headway in controlling overall public sector budgets. However, particularly in those countries where growth is more buoyant or where efforts are being made to establish a new price/wage equilibrium, careful attention has to be paid to keep inflation under control.

Simultaneously, in several EEC member countries, investment is beginning to take over from the upturn in consumption, while the control over production costs and the recovery in companies' financial situations are factors that will stand us in good stead in the future.

Lastly, turning to the operation of the international economic and monetary system, two new developments are adding to the optimistic tone:

(i) some recovery in international trade, connected, of course, with the renewed growth in the industrialized countries, but also with the fact that the open trading system has been largely preserved;

(ii) the remarkable adjustment efforts made by indebted countries towards bringing the growth of their external debt more in line with their capacity to service that debt. We can take satisfaction from the way in which the international financial community has supported these adjustment efforts in a spirit of responsible and effective cooperation. Renewed world economic growth will help developing countries to overcome their debt problems in an orderly way.

Adding to the elements of confidence we welcome the first signs of a return to a more balanced and hopefully more stable pattern of exchange rates, including some correction in the exchange rate of the US dollar. Within the European Community, thanks to better convergence, it is encouraging to note that the European Monetary System has been strengthened over the last 12 months.

So much for the factors generating optimism in the short term.

II. Now we must display pragmatism as regards the choices we have to make jointly

With regard to the activities and financing of the Fund, solutions or generally satisfactory compromises have now been found for most of the problems left unsettled at the Committee's last meeting.

The Community countries have agreed to make an essential contribution to the solution of the Fund's financing problems by means of new credit lines arranged mainly under the aegis of the BIS.

They welcome the additional credit lines being established by other countries and Saudi Arabia in particular, but regret that not all industrial countries considered it possible to take part in the joint effort. Despite this imbalance, their main consideration is to ensure a constructive and rapid solution which would be of benefit to the international community as a whole. Fund credit policies will have to be based on the balance of payments needs, the progress of the adjustment effort as well as the availability of Fund resources including the General Arrangements to Borrow.

As to the question of an SDR allocation, views differ over whether or not a long term global need to supplement existing reserve assets, which is the decisive criterion for an allocation, has been established. The supporters of an allocation argue that the growth of global reserves has been sharply reduced, that the proportion of SDRs in reserve assets has fallen and that the reserves of many developing countries have dropped to very low levels, while the gains on inflation have reduced the risks of an allocation in this field. On the other side is argued that world reserves are again growing and that, at the present juncture of the world economy, the overriding need is for credible adjustment efforts by debtor countries supported, as far as the Fund is concerned, by conditional financing.

The Community will therefore formulate its position on a possible allocation taking into account the balance of developments in these areas.

Other points which are of relevance and should be born in mind whilst monitoring the international liquidity situation over the period ahead, are the size of a possible allocation and the date of its application.

III. Coming to grips with and overcoming the dangers that await us in the longer term

Although we welcome the current improvement in the trend of the economic indicators, we can neither forget the absolute levels to which the improvement applies, nor ignore the dangers which remain in the medium or the long term.

This is first and foremost true of the standard of living of the populations in the developing countries. Even in a number of those developing countries which are growing again, the standard of living per inhabitant is static or actually going down.

In face of this situation, and at a time when many industrialized countries have improving growth prospects, the industrialized countries must take full account of the objectives adopted in connection with the International Development Strategy and the Paris Conference on the LLDC's. At the very least, they must maintain a substantial level of official aid flows. Similarly, the priorities of Africa South of the Sahara and other very poor countries including the least developed countries must be respected.

Even though real progress has been made, we cannot resign ourselves to the unemployment levels which most industrialized countries are still experiencing. The Community countries continue to see the need for more flexible production structures that will help reduce unemployment, together with cooperation and positive adjustment in the fields of industry, training and social solidarity.

However, above all, we must together look beyond the months ahead and try to gauge the dangers which lie further in the future.

The main danger is high real interest rates. They have not prevented the revival of activity. But it is not obvious that the reasons why high interest rates did not prevent this revival are there to stay.

This delicate situation is all the more worrying in that it may worsen still further given the pressures affecting American interest rates, especially at present.

The high level of interest rates is imposing considerable costs on the US economy as well as on the world at large. This underlines the need for a credible plan of action to cut back the large structural deficits of the US federal budget. The Community countries, for their part, remain firmly committed to further improve their own fiscal performance in order to strengthen the groundwork for lasting economic growth.

We must pay tribute to the remarkable and effective adjustment measures taken in many developing countries in conjunction with the Fund. Continued support from the international community, including the Fund and the World Bank, is needed to ensure that these countries will be able to adjust in a way enabling them to regain the momentum of growth and development. Support is critical, in particular, for countries with limited production potential and basic resources.

To maximize the effectiveness of their assistance, the Fund and World Bank should explore all avenues for strengthening their cooperation while preserving their separate and distinct responsibilities. In particular the need to restore the productive basis should continue to be taken into account in the stabilization programmes negotiated with the Fund; the technical assistance provided by the Fund and the Bank should be reinforced; and parallel with the adjustment programmes, the Bank should be given increased responsibility for gathering the multilateral and bilateral aid resources needed to cover the long-term financing requirements of certain developing countries.

The Community continues to be concerned about the problems encountered in securing an adequate level of funding for the International Development Association. Members are following with interest the efforts being made by the management of IDA to mobilize additional resources for the Association.

The Community has resisted protectionist pressures and will keep doing so despite continuing high unemployment levels.

The need to roll back protectionism and to ensure liberal access for exports from developing countries to industrial countries' markets can hardly be overstated. Open markets are critical to ensure lasting world economic growth and to enable developing countries to expand their exports. The countries of the Community, together with other industrial countries, have committed themselves — within the OECD at the summit conference in Williamsburg and at Unctad VI — to check protectionism and to dismantle barriers to trade as the recovery evolves. The Community is taking an active part in the discussions both within the OECD and GATT in order to foster further market liberalization. The Community expects other countries to follow a similar line of policy and to abstain from any protectionist move.

European Communities Washington, 22 September 1984

Statement by Mr Alan Dukes, President of the Council of the European Communities, to the IMF/IBRD Annual Meetings of September 1984

I have the honour to address this meeting on behalf of the countries of the European Economic Community.

Present economic situation

1. Last April the message conveyed on behalf of my predecessor as President of the Council of Economics and Finance Ministers of the European Communities, Mr Delors, was of optimism, pragmatism and hope. Nothing that has happened since then would lead us to abandon that message. The optimism has indeed been reinforced in some respects by developments in the interim. At the same time, a number of uncertainties and problems which pose a serious threat to sustained economic recovery have come more sharply into focus. These emphasize the need for vigilance in order to protect the recovery.

2. We are entitled to take heart from the progressively widening geographical spread of recovery. This has been helped by the sharp pick-up in world trade, attributable largely to the strength of activity in North America. Most industrial countries are now into the recovery phase, although, outside the USA, their recovery is still modest by historical standards. Overall growth in the developing countries is also modest and in many cases is inadequate to reverse a serious decline in real per capita incomes over the past few years: in fact a large number of those countries are still in the grip of stagnation.

3. Encouraging elements in the present situation are that recovery has not so far given rise to a resurgence in inflation, and that significant adjustments in fiscal and external imbalances have been brought about in many countries. As a group, the non-oil developing countries have achieved a remarkable turnaround in their balance of payments position.

4. On the other hand, the high level of unemployment continues in most of our countries. In the industrial countries it is now three times as high as it was in the 1960s and is still rising in many countries. The present year will still see more than 30 million people unemployed in the OECD area alone.

5. Economic trends in the European Community have mirrored those of the industrialized countries generally. GDP growth in the Community is expected to be about 2 $^1/_4$% this year. While benefiting from the increase in world trade, better growth was spurred by the improvement in the underlying conditions and there has also been an encouraging pick-up in business investment in recent months. Inflation is expected, on average, to slow down further to 5%.

6. The single most unsatisfactory development since April last, and the one which, in our view, still poses a major threat to a lasting recovery, is the increase in interest rates. Views expressed earlier in the year that interest rates in the United States would soon fall, proved to be over-optimistic. On the contrary, the significant new upward pressure on US interest rates during recent months, allied to the continuing strength of the dollar, has put pressure in turn on interest rates in other countries. The high level of real interest rates cannot but hold back investment as well as consumption in many countries, both directly and through its distorting effects on exchange rates and capital flows. Even more disquieting, it is placing further burdens on the heavily-indebted countries, is adding to the amount of domestic adjustment that they must undertake and has imposed strains on the international financial and banking systems. The fact that these problems have been contained up to now should not delude us into a sense of complacency.

Economic policies

7. The basic aim of policy in coming months must be to make the economic recovery a healthy and lasting one so that its benefits can spread further, both within the industrial countries and also to the developing countries.

8. The most pressing need is to create the conditions for getting interest rates down. This could ease simultaneously a number of problems on the real and financial sides of our economies. The achievement of lower interest rates in all our countries will depend on how successful we are in keeping a lid on inflationary expectations. This requires in many cases further progress in controlling public expenditure and in reducing structural budget deficits. While many countries are confronted with these difficulties, the United States has a particular responsibility to discharge here. The 'downpayment' measures which have been taken to reduce the US budget deficit are welcome. We trust that they will soon be followed by the additional measures that are needed to reassure the markets and convince them that interest rates can, and will, come down.

9. In discussions here and elsewhere a large degree of consensus has already been reached on the prudent monetary, budgetary and other policies that should be pursued to promote non-inflationary growth. However, prudent economic management will require us also to keep further developments under review and to exercise flexibility in the pursuit of policies.

10. The present level of unemployment, with its vast waste of human and economic resources, will confront us with a major challenge in the months and years ahead, to see how we can achieve increased employment opportunities in the rapidly changing technological environment. Success in this task will involve not only sound macro-economic policies to promote investment and overall growth, but also, and more particularly in Europe, the cutting back of major rigidities in our economies which stifle initiative and enterprise and work against job creation.

International debt problem

11. The interdependence between all our economies is not an abstract concept. It shows up in a very real way when one looks at international debt problems. A return to sustained levels of economic growth in the industrial countries in coming years will be facilitated by continued successful management of the debt problems of the developing countries, with whom we have close trading and financial links: at the same time, lasting growth in the industrial countries is itself required for solving the problems of major debtors in the developing world.

12. The need to view international debt problems in a medium-term perspective is now more generally accepted. Unremitting effort will be needed over a period of years, first of all by the debtor countries but also by industrialized countries as well as the international organizations and, of course, the commercial banks.

13. The progress that some major debtor countries are achieving, at great but unavoidable economic and social sacrifice, is ample evidence of the soundness of the case-by-case approach which has served us well since 1982. That approach must be maintained and strengthened. In particular:

(i) an adjustment programme agreed between the debtor country and the IMF should continue to be the focal point. While these programmes will entail some cutbacks in domestic demand and imports, the Fund should continue to make full use of its operating flexibility, in cooperation with the World Bank, to ensure that the productive potential of the economy will be strengthened and progressively brought into use.

(ii) the banks' willingness to continue providing new funds for debtor countries which are adjusting their economies is a cornerstone of the strategy to deal with the debt problem. Official financing will also have a part to play. In cases where debtor countries are making successful efforts to improve their position, more extended multi-year rescheduling of commercial and public debts should be considered.

14. As already indicated, the main contributions which we in the industrial countries can make are to create and maintain conditions conducive to lower interest rates, and to endeavour to achieve the highest level possible of non-inflationary growth. There are two other things that we must do:

(i) first, we must facilitate the debtor countries in expanding their international trade, by resisting pressures in our countries for further protectionist measures and by rolling back measures already in place. Real progress in opening markets, and not mere posturing, is now needed. The European Community is committed to advancing the work programme agreed at the ministerial meeting of the GATT contracting parties in 1982. A new round of multilateral trade negotiations may also make a valuable contribution to freeing world trade and it is our intention, therefore, to participate constructively in the preparatory discussions with our GATT partners on the possibility of holding such a round;

(ii) secondly, we must lift our eyes beyond immediate problems and look towards ways to improve the operation of the international monetary system, so as to avoid the emergence of unwarranted and volatile exchange-rate movements. The European Community looks forward to the completion, in the first half of 1985, of the present phase of the Group of Ten's work and to subsequent discussion in the Interim Committee. Clearly, in the light of the upheavals of recent years, all countries represented here have a vital interest in such major issues as exchange-rate stability, better multilateral surveillance, management of international liquidity, the role of the IMF and the cooperation between the IBRD and the IMF. In the meantime, we in the Community take satisfaction in the smooth functioning of the European Monetary System in the recent past despite the unstable international environment. We are determined to maintain and strengthen the EMS, both to bring our own economies closer together and as a contribution to the wider objective of stabilizing the international monetary system. The further development of the international role of the yen will be followed with interest by the Community.

IMF and World Bank matters

15. Our dependence on the stabilizing influence of the IMF was never more apparent than during the recent past. The Managing Director deserves our special gratitude for his leadership and clarity of purpose. The countries of the European Community stand fully behind the Fund in its work. During the year EC member countries demonstrated our support in a concrete way by participating, with the BIS and certain other countries, in the operation to provide credit lines of 6 000 million SDR to the Fund.

16. Thanks to this 6 000 million SDR and the implementation of the last quota increase, the liquidity and financing position are satisfactory at present, but pressures on resources could arise again at a later stage. This year's effort to provide new resources to the Fund was, by its nature, an exceptional arrangement. Any new financing efforts that may be required should be spread fairly and should include all the major industrial countries. The enlarged General Arrangements to Borrow, which were an integral part of the agreement on the expansion of the Fund's resources, provide an important instrument for this purpose.

17. The Fund's resource needs will, of course, be influenced by the agreement reached at the Interim Committee on Saturday last on the continuation of the enlarged access policy and on the limits to apply in 1985. In present circumstances it would have been premature to drop the enlarged access. Further review of the facility must take account of IMF members' payments problems, of the financing available to the Fund, of the temporary nature of the policy and of the principle that subscriptions under members' quotas are the primary source of Fund financing.

18. As regards a new allocation of SDRs, the arguments for and against, including the question of the existence of a global need to supplement existing reserve assets, have been well rehearsed over a long period. In the final analysis a decision on whether or not to have an allocation, and on its specifications, is a matter for judgment. Any decision must be consistent with the IMF articles, taking full account of present economic and financial circumstances.

19. Important issues may arise also in the World Bank, in the current review of its future role. The Bank has shown a great capacity to innovate — in lending, financing and co-financing techniques — without losing its identity as a developmental institution. But there is still scope and some need for further progress in these directions. The proposed selective capital increase in the Bank, and the increase in the capital of the IFC, should place them in a good position to make such progress without endangering the sound principles of development finance. The question of the next general capital increase in the Bank should also be addressed in due time.

20. The picture is not nearly as good in the International Development Association. The seventh replenishment is simply inadequate and will weaken the IDA's efforts to help the poorest countries, especially those in sub-Saharan Africa, who should have top priority. The discussion of the World Bank special programme for Africa provides us with a unique opportunity to focus our attention on this central question. The cutback in the IDA's resources has also been accompanied by a decline in real terms in other forms of official development assistance. We must surely redouble our efforts to help the poorest countries if we are to retain credibility. The task is not easy but, in tackling it, we must keep in mind the interdependence between all our countries and try to recapture the spirit and vision of Bretton Woods 40 years ago.

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