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STATEMENT OF THE GROUP OF SEVEN

1. The Finance Ministers and Central Bank Governors of seven major industrial countries have conducted close consultations in recent weeks on their economic policies and prospects in light of developments in financial markets. They reaffirmed their conviction that the basic objectives and economic policy directions agreed in the Louvre Accord remain valid and provide for a positive development of the world economy. They will continue to carry forward their economic policy coordination efforts in 1988 under the arrangements endorsed at the Venice Summit.
2. The Ministers and Governors reemphasized their view that the major external imbalances in the world economy must be corrected. The policies which have been implemented this year are gradually showing the intended effects. In particular, the balance between domestic demand and output in the United States and in Japan and the Federal Republic of Germany has shifted in a direction which promotes external adjustment and in volume terms their trade imbalances are diminishing. The greater stability of exchange rates achieved for much of the past year, following the earlier substantial exchange rate changes, contributed to this adjustment. The marked exchange rate changes over the past few weeks, however, stress the need to strengthen underlying economic fundamentals and to continue policy cooperation.
3. Developments in stock markets since mid October may have some adverse effect on prospects for economic growth for the industrialized countries as a group. The Ministers and Governors believe, however, that with sound economic policies and effective coordination the rate of growth should be substantial. To this end they agreed that appropriate policies for strengthening non-inflationary growth in their countries are necessary.
4. Accordingly, the Ministers and Governors agreed to intensify their economic policy coordination efforts. Their common efforts are directed towards reducing external imbalances. In particular, the United States has secured Congressional action to implement the agreement between the President and the bipartisan Congressional Leadership on a two-year package of additional budget savings that will reinforce progress in reducing the budget deficit. Japan has implemented a major stimulus program to strengthen domestic demand and will see to it that in the FY 1988 budget the expenditure for general public works will not be less than that for the FY 1987 budget including the July supplemental. The Federal Republic of

Germany is supplementing the previously announced increase in tax reductions in 1988 with new measures to increase investment and will not seek to offset the budget revenue losses arising from recent developments. There have also been coordinated reductions in interest rates in Europe which should contribute to the expansion of domestic demand and reduce trade imbalances. The specific policy intentions and undertakings by each country are set forth in the annex to this statement.

5. The Ministers and Governors are of the view that the recent monetary policy decisions and the reduction of interest rates in some countries were appropriate and will contribute to a restoration of stability to financial markets. They agreed that monetary policies should continue to be directed towards providing adequate monetary conditions to achieve strong economic growth in the context of price stability as well as to foster financial market stability.
6. The Ministers and Governors strongly rejected protectionist measures as a means of dealing with present imbalances. Protectionism constitutes a direct and serious danger to world prosperity and equilibrium and would have harmful consequences for those countries which resort to it. They reaffirmed their determination to fight protectionism and to promote an open world trading system.
7. The Ministers and Governors believe that the reduction of world trading imbalances requires cooperative action by other countries, particularly those with surpluses. They expressed particularly serious concern that some newly industrialized economies have failed to take adequate action to deal with large and growing trade surpluses which are exacerbating global imbalances and fostering protectionist pressures. They urged the newly industrialized economies to implement without delay trade and exchange rate policies that will facilitate the reduction of excessive trade surpluses and allow their currencies to fully reflect the strong competitive position of their economies.
8. The Ministers and Governors agreed that either excessive fluctuation of exchange rates, a further decline of the dollar, or a rise in the dollar to an extent that becomes destabilizing to the adjustment process, could be counter-productive by damaging growth prospects in the world economy. They reemphasized their common interest in more stable exchange rates among their currencies and agreed to continue to cooperate closely in monitoring and implementing policies to strengthen underlying economic fundamentals to foster stability of exchange rates. In addition, they agreed to cooperate closely on exchange markets. The Ministers and Governors stressed the need for consistent and mutually supportive policies and believe that the measures being taken

will accelerate progress towards the increased, more balanced economic growth, and sustainable external positions necessary for greater exchange rate stability.

## Annex

### Policy Intentions and Undertakings

The Government of Canada's fiscal strategy has succeeded in achieving a drop in the rate of growth of its spending and substantial, on-going declines in the budget deficit. Marked progress has been made in slowing the growth of debt, and towards the medium-term objective of stabilizing the debt-to-GDP ratio. Fiscal restraint has been accompanied by impressive growth of domestic demand, output and employment. Major structural initiatives directed at enhancing competitiveness and the underlying potential of the economy have been undertaken, particularly tax reform and the negotiation of a free trade agreement with the United States. Monetary policy remains geared to non-inflationary growth in a climate of orderly exchange markets.

The Government of France has fully met its commitment to reduce its fiscal deficit and tax burden. The fiscal deficit will be reduced by 0.8% of GNP from 1986 to 1988. Over the same period of time, tax cuts will amount to 1.3% of GNP. A further reduction of 45 billion french francs in the fiscal deficit and an additional 45 billion french francs in tax cuts are scheduled in a 1989-1991 three year program which constitutes the long term strategy of the government and will be implemented in the yearly budgets. The privatization program decided upon in early 1987 is being carried out, and its initial objectives have even been surpassed. The full implementation of the program will be resumed as soon as market conditions permit.

The French Government will continue to pursue its adjustment and liberalization policies. New measures to sustain household savings, develop financial markets and improve the competitiveness of firms have been taken. Additional steps will be taken in the same direction in 1988.

The Government of the Federal Republic of Germany has increased the amount of the tax reductions for 1988 and beyond to about 14 billion DM, and will not seek to offset the budget revenue losses arising from recent developments. In addition, the necessary decisions have been taken for the structural tax reform with a further net tax reduction of 20 billion DM from 1990 onward.

In order to strengthen private and public investment, the Federal Government will provide special loans for the next 3 years of about 21 billion DM under preferential conditions. Moreover, it will accelerate investment in telecommunication infrastructure and take initiatives for further deregulation of markets.

The Bundesbank has reduced short-term interest rates substantially during the last few weeks. Monetary policy will

continue to maintain appropriate conditions for sustained non-inflationary growth.

The Government of Italy, in the context of continuous significant growth, has taken temporary measures to halt the deterioration of the balance of payments due to a higher rate of domestic demand in Italy than in other industrialized countries. For 1988 the objective embodied in the Finance Bill is to maintain a relatively high level of growth and to reduce inflation, while making progress in correcting the public sector imbalance.

In the medium-term, to alleviate unemployment the Italian authorities intend to achieve satisfactory rates of growth while maintaining the balance of payments current account in substantial equilibrium, to stabilize the debt/GDP ratio, and to devote more resources to the financing of productive as well as infra-structural investments, thus improving the quality of public services.

The Government of Japan noted that the Japanese economy is in a vigorous expansionary phase, led by domestic demand growth. The Government will steadfastly continue implementing the 6 trillion-yen-plus package decided on last May, and will see to it that in the FY 1988 budget the expenditure for general public works will not be less than that for the FY 1987 budget including the July supplemental.

The Bank of Japan will follow appropriate and flexible monetary policy supportive of non-inflationary growth and exchange rate stability.

The United Kingdom Government, in the context of the British economy's continued vigorous growth of output and domestic demand, coupled with sound public finances, will continue to strive to reduce inflation by pursuing a prudent monetary policy, while increasing its capacity for non-inflationary growth by further measures designed to free the operation of markets and increase the efficient use of resources, including tax reduction and tax reform. Public expenditure will continue to increase less rapidly than the growth of the economy as a whole, and the government will continue to work for the dismantling of barriers to trade both within the European Community and in the context of the Uruguay round of the GATT.

The United States Government has secured Congressional action to implement the agreement between the President and the bipartisan Leadership of the Congress on a two-year package of

budget savings to reduce the U.S. budget deficit. This agreement provides for total budget savings, through a combination of spending restraint and increased taxes, in fiscal 1988 and 1989 of approximately \$76 billion.

The budget agreement is part of an ongoing process of deficit reduction provided for under the revised Gramm-Rudman-Hollings legislation. It will reinforce the progress already achieved in reducing the deficit (including a fiscal 1987 cut of \$73 billion or 1.9 percent of GNP) that has brought the deficit down to 3.4 percent of GNP from a peak of 6.3 percent.

The Administration will also continue to oppose steadfastly protectionist trade measures, while working for legislation authorizing negotiations to foster a more open and fair system for the international exchange of goods, services and investment.



Press Guidance

1. Question: Why did you issue a communique without a meeting?

Answer: Meetings are not necessarily required to produce successful economic policy coordination.

We have been engaged in intensive consultations on a daily basis for several weeks which has produced major accomplishments that are greater than could have been achieved in a single meeting.

2. Question: Why doesn't the statement contain a clear commitment to stabilize exchange rates around current levels as provided in the Louvre agreement?

Answer: Circumstances have changed since the Louvre. The statement reemphasizes the common interest in strengthening underlying economic fundamentals to foster stability of exchange rates.

3. Question: Will monetary policy be used to prevent a further decline of the dollar?

Answer: We will not comment on this issue beyond Paragraph 5 of the statement which speaks for itself.

4. Question: Do you really think that the dollar could appreciate as suggested in paragraph 8?

Answer: A rise of the dollar cannot be ruled out. As the statement indicates, however, a rise of the dollar to an extent that becomes destabilizing to the adjustment process could be counterproductive.

5. Question: What makes you think that this agreement will be any more successful than its predecessors in reducing external imbalances?

Answer: There has been considerable adjustment in exchange rates since the Louvre. The coordination process is working and, as the statement records, governments are taking additional actions to reduce imbalances. Global economic growth is being maintained.



6. Question: Are you satisfied with Japanese and German efforts to promote growth or will you be seeking additional measures, including larger tax cuts and lower interest rates?

Answer: The U.S. is pleased by the actions taken by Japan and Germany to improve growth and reduce external imbalances. We believe that the measures being taken are in the right direction and will have their intended effects.

7. Question: The U.S. trade deficit continues to grow despite a substantial dollar depreciation. Doesn't this suggest the need to reduce domestic consumption and growth in order to achieve meaningful reductions in the trade deficit?

Answer: The general trend has been for the trade deficit to improve in volume terms. Exports are up and our external account is a major factor in U.S. growth.

With the measures referred to in the statement, we should see a decline in external imbalances without reducing U.S. growth.

8. Question: When can we expect to see a lower U.S. trade deficit?

Answer: The U.S. trade deficit is improving in volume terms and we would expect this trend to be reflected in the value figures during 1988.

9. Question: Does this statement mean that the Louvre is dead?

Answer: This statement builds on the Louvre. As paragraph 1 makes clear, the basic objectives of the economic policy coordination process are the same as in the Louvre.

10. Question: Will you activate or increase swap lines, and/or issue "Reagan (foreign currency) bonds?"

Answer: The U.S. has adequate resources to meet its responsibilities to cooperate with its G-7 partners to foster exchange market stability. There are no plans to issue foreign-currency securities or activate swap lines.

11. Question: What do you think about Minister Stoltenberg's recent downward revision of the German growth forecast for 1988 to 1.5 to 2 percent?

Answer: We were disappointed to see the lower growth in Germany but are pleased that the German authorities have adopted measures to stimulate domestic demand. We believe that the recently announced DM 21 billion, three year, new investment program and lower interest rates will in fact help sustain the German growth outlook.

*Mike Mussa*

September 26, 1987

Statement of the Group of Seven

1. The Finance Ministers and Central Bank Governors of seven major industrial countries met today. The Managing Director of the IMF also participated in the meeting. This continues the economic policy coordination process agreed by their Heads of State or Government at the 1986 Tokyo Summit and strengthened at the 1987 Venice Summit meetings. The Ministers and Governors are convinced that this process, including the use of economic indicators, provides an important and effective means of promoting a healthy and prosperous world economy and stable monetary system.
2. The Ministers and Governors reviewed together the events, policy developments, and evolution of foreign exchange markets since the Louvre Agreement and the April G-7 meeting in Washington. They were pleased with the exchange rate stability which has been achieved and which has benefitted their policies and performance.
3. In the Louvre Agreement the Ministers and Governors set out the policies which they intended individually to pursue, and undertook to monitor them together and as necessary intensify or adapt them. They note that some important decisions have been taken in individual countries which were envisaged in the February statement, and that generally the evolution of policies has been along the lines intended.
4. Some important favorable results are beginning to be seen. The substantial reduction in fiscal 1987 in the United States federal budget deficit is a very positive step, as is the continued determination in resisting protectionist pressures, and they particularly welcomed the announcement today by the President of the United States of his decision to sign legislation which will reinforce progress in reducing the budget deficit. The major program of additional expenditures and income tax cuts in Japan is being rapidly implemented. In Germany the reductions in income taxes from January 1988 will be greater than previously planned and the legislation for them has already been enacted. There have been reductions in external imbalances in real terms, although they remain high. Growth in domestic demand in surplus countries is picking up, but it is important that it improves further in some countries.
5. The Ministers and Governors note that the large trade surpluses of some newly industrialized economies continue to be an important factor contributing to external imbalances. They repeat their view expressed on earlier occasions that these economies should reflect their growing importance and responsibilities by reducing trade barriers and pursuing policies that allow their currencies to reflect more fully underlying economic fundamentals.

6. The Ministers and Governors commit themselves to take further appropriate actions as necessary to achieve the agreed goals set forth in the Louvre Agreement. They will particularly intensify their efforts to liberalize markets, implement tax reforms and pursue other structural changes to strengthen the vitality of their economies, to foster a high rate of sustained non-inflationary growth and to reduce external imbalances. They reaffirmed their determination to fight protectionism, and to promote an open world trading system.
7. The Ministers and Governors reaffirmed their intentions to carry forward their economic policy coordination efforts. During the coming year the developments of their economies will be monitored closely under the strengthened surveillance arrangements outlined in the Venice Summit. In light of the progress achieved to date in laying the basis for a reduction of imbalances, and the prospects for further progress, Ministers and Governors reaffirmed that currencies are within ranges broadly consistent with underlying economic fundamentals. They recommitted themselves to continue to cooperate closely to foster the stability of exchange rates around current levels.



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INCREASED PUBLICITY IN IMF SURVEILLANCE

## NOTE BY THE U.S. DEPUTIES

RECOGNIZING THAT A NUMBER OF DEPUTIES HAVE EXPRESSED SOME CONCERNS ABOUT THE CONCEPT OF INCREASED PUBLICITY AS PART OF STRENGTHENING IMF SURVEILLANCE, WE WOULD LIKE TO USE THIS OPPORTUNITY TO CONSIDER SOME ALTERNATIVES SHORT OF "FULL DISCLOSURE" THAT ADDRESS SOME OF THESE CONCERNS, WHILE STILL PROVIDING A BASIS FOR ENHANCING IMF SURVEILLANCE.

WE BEGIN FROM THE PREMISE THAT OUR PRINCIPAL OBJECTIVE IN STRENGTHENING IMF SURVEILLANCE IS TO ENABLE THE IMF TO HAVE A GREATER INFLUENCE ON THE POLICIES OF MEMBER GOVERNMENTS:

(1) BY PROMOTING BETTER UNDERSTANDING AMONG MEMBER COUNTRIES OF THE INTER-RELATIONSHIPS AMONG THEIR RESPECTIVE ECONOMIES; AND

(2) BY ENCOURAGING THE ADOPTION OF SOUND ECONOMIC POLICES AMONG MEMBER COUNTRIES THAT ARE CONSISTENT WITH AN EFFECTIVELY FUNCTIONING INTERNATIONAL MONETARY SYSTEM AND AN EXPANDING WORLD ECONOMY.

THE EFFECTIVENESS OF IMF SURVEILLANCE CAN BE ENHANCED BOTH DIRECTLY THROUGH IMF CONSULTATIONS WITH MEMBER COUNTRIES, AND INDIRECTLY THROUGH INCREASED PUBLIC AWARENESS OF INTERNATIONAL VIEWS AND CONCERNS.

OUR JULY PROPOSALS INCLUDED A NUMBER OF SPECIFIC SUGGESTIONS FOR ENHANCING THE FUND'S INFLUENCE DIRECTLY WITH MEMBER COUNTRIES. THESE INCLUDED PROPOSALS FOR A CONFIDENTIAL, PERSONAL MEETING BETWEEN THE MANAGING DIRECTOR AND FINANCE MINISTER FOR COUNTRIES WHOSE POLICIES AND PERFORMANCE ARE OF GREATEST CONCERN FOR THE FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM; FOR MORE PRECISE IMF POLICY SUGGESTIONS IN STAFF REPORTS AND EXECUTIVE BOARD DISCUSSIONS; AND FOR GREATER USE OF SPECIAL AD HOC CONSULTATIONS BY THE MANAGING DIRECTOR.

WE ALSO PROPOSED THAT THE MANAGING DIRECTOR RELEASE A PUBLIC STATEMENT AT THE CONCLUSION OF THE ARTICLE IV CONSULTATIONS, POSSIBLY BASED ON HIS SUMMING-UP OF THE EXECUTIVE BOARD DISCUSSION, GIVING AN ASSESSMENT OF A COUNTRY'S POLICIES AND PROSPECTS, AND ENCOURAGING POLICY CHANGES IN DETAIL AS APPROPRIATE. SUCH AN APPROACH WOULD GIVE A MAXIMUM OF PUBLIC PLAY TO OTHER NATIONS' CONCERNS ABOUT A MEMBER'S POLICIES TO SPECIFIC IMF PROPOSALS FOR POLICY CHANGES. SOME EXPRESSED CONCERN, HOWEVER, THAT THIS PROPOSAL WOULD NOT ONLY SUBJECT MEMBER GOVERNMENTS TO PUBLIC CRITICISM BY THE IMF STAFF AS WELL AS OTHER GOVERNMENTS, BUT COULD ALSO CREATE THE IMPRESSION THAT THE MANAGING DIRECTOR IS ATTEMPTING TO DICTATE POLICY CHANGES TO MEMBER COUNTRIES.

WE BELIEVE PUBLIC CRITICISM CAN BE A HEALTHY AND ESSENTIAL PART OF THE DECISION-MAKING PROCESS, AND CAN ALSO BE A POTENT MEANS OF ENCOURAGING NEEDED POLICY CHANGES. NEVERTHELESS, WE CAN

UNDERSTAND THE RELUCTANCE OF GOVERNMENTS TO HAVE A PUBLIC CALL BY THE IMF FOR SPECIFIC POLICY CHANGES, AS OPPOSED TO AN EXPRESSION OF GENERAL AREAS OF CONCERN WHICH CLEARLY LEAVES THE DETERMINATION OF DETAILED POLICIES TO ADDRESS THOSE CONCERNS TO INDIVIDUAL GOVERNMENTS. PUBLIC STATEMENTS BY THE MANAGING DIRECTOR FOR SPECIFIC POLICY CHANGES COULD BACKFIRE, GENERATING INTERNAL POLITICAL OPPOSITION, AND THEREBY MAKING IT MORE DIFFICULT FOR GOVERNMENTS TO ADOPT NECESSARY POLICY CHANGES.

WE BELIEVE THAT A CAREFULLY STRUCTURED APPROACH TO PUBLICITY CAN MINIMIZE THESE POTENTIAL RISKS AND, ON BALANCE, PROVIDE SIGNIFICANT BENEFITS TO THE INTERNATIONAL COMMUNITY. IN PARTICULAR, HEIGHTENED PUBLIC AWARENESS OF THE CURRENT STATE OF AN ECONOMY AS PERCEIVED FROM ABROAD, CAN HELP OFFICIALS, PARTICIPANTS IN INTERNATIONAL MARKETS, AND THE PUBLIC IN GENERAL TO MAKE BETTER AND MORE INFORMED DECISIONS.

SUCH PUBLICITY COULD ALSO HELP PROVIDE A BROADER PERSPECTIVE ON POSSIBLE POLICY OPTIONS, AND BY GETTING THE ATTENTION OF SENIOR POLICY OFFICIALS, COULD BETTER ASSURE THAT THE VIEWS OF THE INTERNATIONAL COMMUNITY ARE CONSIDERED IN THE DECISION-MAKING PROCESS. THROUGH THESE MECHANISMS, ENHANCED PUBLICITY COULD ALSO INCREASE THE LIKELIHOOD THAT SOUND ECONOMIC POLICIES WILL BE ADOPTED.

TO ACCOMPLISH THESE OBJECTIVES, WHILE AVOIDING THE RISKS ASSOCIATED WITH PUBLICIZING SPECIFIC IMF POLICY RECOMMENDATIONS, WE WOULD PUT FORWARD THE FOLLOWING PROPOSALS ON PUBLICITY:

(1) SPECIFIC IMF POLICY SUGGESTIONS WOULD REMAIN CONFIDENTIAL AND WOULD NOT BE RELEASED TO THE PUBLIC UNLESS AUTHORIZED BY THE MEMBER COUNTRY INVOLVED. THIS WOULD HELP PRESERVE THE ESSENTIAL CONFIDENTIAL NATURE OF IMF CONSULTATIONS AND HELP AVOID THE POSSIBLE NEGATIVE EFFECTS OF TOO MUCH PUBLIC ATTENTION BEING FOCUSED ON POSSIBLY DETAILED PRESCRIPTIONS FOR POLICY CHANGES.

(2) THE MANAGING DIRECTOR WOULD, ON HIS OWN AUTHORITY AND WITHOUT PRIOR BOARD APPROVAL, PUBLICLY RELEASE A STATEMENT AT THE CONCLUSION OF THE ARTICLE IV CONSULTATIONS GIVING A BRIEF ASSESSMENT OF A COUNTRY'S POLICIES AND PROSPECTS, REFLECTING KEY POINTS ABOUT THOSE POLICIES EXPRESSED BY THE EXECUTIVE BOARD. SUCH A STATEMENT WOULD, IN EFFECT, BE AN ABBREVIATED VERSION OF THE MANAGING DIRECTOR'S SUMMING-UP OF THE EXECUTIVE BOARD DISCUSSION, REFLECTING THE BASIC SENSE OF THAT SUMMING-UP WITHOUT THE DETAIL. (THERE WOULD BE NO CHANGES IN CURRENT PROCEDURES REGARDING THE MANAGING DIRECTOR'S SUMMING UP.) THE RELEASE WOULD GENERALLY NOT BE MORE THAN ONE PAGE IN LENGTH, UNLESS THERE WERE EXTRAORDINARY CIRCUMSTANCES MILITATING IN FAVOR OF A LONGER RELEASE. THE RELEASE WOULD BE MADE AVAILABLE PUBLICLY WITHIN FIVE WORKING DAYS OF THE BOARD MEETING.

THIS APPROACH WOULD BE CONSISTENT WITH OUR BASIC OBJECTIVE OF BRINGING INTERNATIONAL CONCERNS MORE FORCEFULLY TO THE ATTENTION OF POLICYMAKERS, AS AN ADDITIONAL PRESSURE POINT TO BE CONSIDERED IN DETERMINING NATIONAL POLICIES. SINCE THE STATEMENT WOULD BE A MORE GENERAL VERSION OF THE MD'S SUMMING-UP, ITS RELEASE WOULD NOT NEED TO POLITICIZE EXECUTIVE BOARD DISCUSSIONS. THE MD WOULD HAVE DISCRETION TO HIGHLIGHT THOSE ISSUES HE PERCEIVES ARE MOST IMPORTANT, BASED ON THE DISCUSSIONS IN THE EXECUTIVE BOARD, IN A MANNER THAT HE BELIEVES COULD BE MOST USEFUL IN ENCOURAGING THE ADOPTION OF SOUND POLICIES.

(3) THE EXECUTIVE BOARD WOULD ADOPT A DECISION PERMITTING THE RELEASE OF ALL ARTICLE IV DOCUMENTS, INCLUDING STAFF REPORTS AND RECENT ECONOMIC DEVELOPMENTS (REDS), IN WHOLE OR IN PART, UPON THE APPROVAL OR REQUEST OF THE MEMBER COUNTRY INVOLVED. THE EXECUTIVE BOARD WOULD ALSO RECONFIRM ITS VIEW THAT ARTICLE IV DOCUMENTS SHOULD CONTINUE TO CONTAIN FRANK ASSESSMENTS OF A MEMBER'S POLICIES REGARDLESS OF WHETHER THEY ARE RELEASED. THERE SHOULD NOT BE ANY EXPECTATION THAT COUNTRIES WOULD, AS A RESULT OF THIS DECISION, RELEASE ANY OR ALL OF THE ARTICLE IV DOCUMENTS. THIS WOULD SIMPLY MAKE IT CLEAR THAT COUNTRIES COULD MAKE SUCH DOCUMENTS AVAILABLE PUBLICLY, SHOULD THEY SO CHOOSE. (IT MAY BE THAT SOME COUNTRIES WILL, AS PART OF A PROCESS OF "ENHANCED SURVEILLANCE", AGREE TO PUBLICATION OF PARTICULAR SECTIONS OF ARTICLE IV DOCUMENTS, SUCH AS PARTS OF THE STAFF REPORTS OR A MORE DETAILED VERSION OF THE MD'S SUMMING-UP. THE "PUBLIC" ASPECT OF "ENHANCED SURVEILLANCE FOR DEBTOR COUNTRIES" IS DEALT WITH IN THE SEPARATE NOTE ON THAT SUBJECT.) BEYOND THESE STEPS, WE BELIEVE THAT CONSIDERATION SHOULD ALSO BE GIVEN TO A GENERAL POLICY PROVIDING AUTOMATICALLY FOR THE RELEASE OF CERTAIN DOCUMENTS ASSOCIATED WITH THE ARTICLE IV CONSULTATION PROCESS. POSSIBLY, THIS SHOULD INITIALLY INVOLVE ONLY REDS OR CERTAIN PARTS OF (OR APPENDICES TO) REDS. FOR OUR PART, WE WOULD BE PREPARED TO RELEASE ANY AND ALL RED-RELATED DOCUMENTS THAT THE G-10 MINISTERS AND GOVERNORS COULD AGREE SHOULD BE RELEASED TO THE PUBLIC. WE BELIEVE IT IS IMPORTANT, HOWEVER, TO HAVE A UNIFORM APPROACH AMONG THE G-10 COUNTRIES--AND EVENTUALLY AMONG ALL FUND MEMBERS-- REGARDING THE RELEASE OF THESE DOCUMENTS. THIS COMMON APPROACH IS AN ISSUE WE MAY WISH TO EXPLORE FURTHER IN OUR DISCUSSIONS.

WE BELIEVE THAT THIS MODIFIED APPROACH MEETS A NUMBER OF THE CONCERNS EXPRESSED BY DEPUTIES IN PREVIOUS MEETINGS, WHILE MAINTAINING A POTENTIALLY IMPORTANT MEANS OF IMPROVING THE EFFECTIVENESS OF IMF SURVEILLANCE.

ADMITTEDLY, THERE STILL MAY BE POLITICAL PROBLEMS WITH THIS PROPOSAL. NO GOVERNMENT LIKES TO BE TOLD IN PUBLIC THAT OTHER GOVERNMENTS THINK IT IS PURSUING POOR OR INAPPROPRIATE POLICIES, OR TO HAVE THE IMPRESSION CREATED THAT AN INTERNATIONAL INSTITUTION HAS A DIFFERENT VIEW OF ITS ECONOMIC PROBLEMS THAN ITS OWN OFFICIALS DO. BUT IF WE ARE SERIOUS ABOUT STRENGTHENING SURVEILLANCE OVER THE POLICIES OF ALL MEMBER COUNTRIES, NOT JUST THOSE USING IMF RESOURCES, IN ORDER TO IMPROVE THE FUNCTIONING OF



THE INTERNATIONAL MONETARY SYSTEM, WE BELIEVE WE MUST BE PREPARED  
TO TAKE THE RISKS ASSOCIATED WITH INCREASED PUBLICITY.

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"ENHANCED" IMF SURVEILLANCE FOR DEBTOR COUNTRIES

NOTE BY THE U.S. DEPUTIES

THE G-10 FINANCE MINISTERS HAVE ENDORSED THE PRINCIPLE OF STRENGTHENING IMF SURVEILLANCE AS A KEY ASPECT OF OUR STUDIES ON IMPROVING THE INTERNATIONAL MONETARY SYSTEM. WE HAVE CONSIDERED A NUMBER OF GENERAL PROPOSALS FOR STRENGTHENING MULTILATERAL SURVEILLANCE AND THE ARTICLE IV CONSULTATIONS PROCESS. THESE PROPOSALS WOULD APPLY EQUALLY TO ALL COUNTRIES, BUT A NUMBER OF THEM MAY HAVE SPECIAL RELEVANCE FOR DEBTOR COUNTRIES, INCLUDING PROPOSALS TO IMPROVE INFORMATION AND ANALYSIS OF CAPITAL FLOWS AND DEBT DATA, TO ASSESS THE IMPACT OF RESTRICTIONS ON CAPITAL MOVEMENTS, AND TO EVALUATE THE EFFECTS OF TRADE RESTRICTIONS ON THE ADJUSTMENT PROCESS. WE WOULD HOPE TO RETURN TO THESE AND OTHER PROPOSALS TO STRENGTHEN SURVEILLANCE WHEN WE DEVELOP THE DEPUTIES' REPORT ON THIS ISSUE.

MORE ATTENTION ALSO NEEDS TO BE GIVEN, HOWEVER, TO THE ROLE OF FUND SURVEILLANCE UNDER CERTAIN SPECIAL CIRCUMSTANCES. THE MEXICAN MULTI-YEAR RESCHEDULING AGREEMENT WITH THE PRIVATE BANKS, FOR EXAMPLE, HAS ALREADY CALLED FOR AN "ENHANCED" SURVEILLANCE ROLE FOR THE FUND IN CONJUNCTION WITH ITS NORMAL ARTICLE IV CONSULTATIONS. THERE MAY ALSO BE OTHER SITUATIONS WHERE ADDITIONAL IMF FINANCING MAY NOT BE APPROPRIATE BUT A CONTINUED FUND MONITORING ROLE WOULD HELP TO ASSURE OTHER CREDITORS THAT A DEBTOR COUNTRY IS PURSUING SOUND MACROECONOMIC POLICIES AND THEREBY ENCOURAGE CONTINUED CREDITOR SUPPORT FOR THE COUNTRY'S ECONOMIC POLICIES.

THIS PAPER EXPLORES THESE POSSIBLE AREAS OF "ENHANCED" FUND SURVEILLANCE, PROPOSES SOME POSSIBLE GUIDELINES FOR FUND INVOLVEMENT, AND RAISES A FEW QUESTIONS FOR FURTHER CONSIDERATION.

THE MEXICAN CASE: MULTI-YEAR RESCHEDULING

THE LONDON ECONOMIC SUMMIT ENCOURAGED CONSIDERATION OF MULTI-YEAR RESCHEDULING OF COMMERCIAL AND, WHERE APPROPRIATE, OFFICIAL DEBT "IN CASES WHERE DEBTOR COUNTRIES ARE THEMSELVES MAKING SUCCESSFUL EFFORTS TO IMPROVE THEIR POSITION." MEXICO PROVIDED THE FIRST EXAMPLE OF SUCH MULTI-YEAR DEBT RESCHEDULING WITHIN THIS CONTEXT. A PRINCIPAL ISSUE IN THE RESCHEDULING NEGOTIATIONS WAS THE INTEREST OF THE BANKS IN HAVING SOME MEANS OF ASSURANCE THAT THE MEXICAN ECONOMIC PERFORMANCE AND ADJUSTMENT EFFORTS WOULD REMAIN "ON TRACK" IN THE ABSENCE OF A FORMAL IMF ADJUSTMENT PROGRAM STARTING IN 1986. THE PROCEDURE THAT WAS DEVELOPED, IN CONSULTATIONS BETWEEN MEXICO AND THE BANK ADVISORY COMMITTEE FOR MEXICO, AND WITH THE APPROVAL OF THE MANAGING DIRECTOR, INVOLVED A FORM OF "ENHANCED" IMF SURVEILLANCE. THE SPECIFIC ELEMENTS OF THE MEXICAN MONITORING PROCEDURES INCLUDE:

- (1) PREPARATION BY MEXICO AT THE BEGINNING OF EACH FISCAL YEAR OF A DETAILED FINANCIAL PROGRAM CONTAINING A COMPREHENSIVE DESCRIPTION OF MEXICO'S MAJOR MACRO-

**ECONOMIC POLICY OBJECTIVES, TARGETS AND ASSUMPTIONS  
FOR THE COMING YEAR, INCLUDING EXTERNAL VARIABLES  
AFFECTING THE MEXICAN ECONOMY;**

- (2) EXPANDED INTERNAL PROCEDURES WITHIN MEXICO TO PERMIT A CLOSER MONITORING OF DEVELOPMENTS WITH REGARD TO THE PUBLIC SECTOR DEFICIT, NET CREDIT EXPANSION, CHANGES IN THE LEVEL OF INTERNATIONAL RESERVES, AND THE BALANCE AND GROWTH OF EXTERNAL DEBT, AND TO FACILITATE PROMPT CORRECTIVE ACTION IF DEVIATIONS ARISE;**
- (3) FUND STAFF REVIEW AND APPRAISAL OF THE OBJECTIVES, POLICIES, AND PROJECTIONS IN MEXICO'S ANNUAL FINANCIAL PROGRAM AND BUDGET, AND A FUND ASSESSMENT OF THE COUNTRY'S PERFORMANCE DURING THE PREVIOUS YEAR, IN THE CONTEXT OF THE ANNUAL ARTICLE IV CONSULTATIONS. THE STAFF'S ARTICLE IV REPORT WILL SPECIFICALLY COMMENT ON WHETHER THE OBJECTIVES AND TARGETS OF THE PROGRAM ARE INTERNALLY CONSISTENT, AND WILL ADDRESS THE COMPATIBILITY OF MEXICO'S PROGRAM WITH SOUND, SUSTAINED ECONOMIC GROWTH AND WITH A VIABLE EXTERNAL PAYMENTS POSITION CONSISTENT WITH CONTINUING DEBT SERVICE. IT WILL ALSO COMMENT ON NON-FINANCIAL ASPECTS OF MEXICO'S POLICY AND ON EXTERNAL DEVELOPMENTS WHICH COULD AFFECT ECONOMIC PERFORMANCE, ITS BALANCE OF PAYMENTS, AND THE VIABILITY OF ITS EXTERNAL PAYMENTS POSITION;**
- (4) A MEXICAN REQUEST FOR AN IMF MID-YEAR REVIEW OF THE PERFORMANCE OF THE MEXICAN ECONOMY AND PROGRESS IN IMPLEMENTING THE FINANCIAL PROGRAM AND BUDGET, MEASURED AGAINST THE SPECIFIC TARGETS. THE IMF STAFF REPORT ON THESE DEVELOPMENTS, ON DISCUSSIONS WITH MEXICAN AUTHORITIES, AND THE STAFF'S CONCLUSIONS WILL BE SUBMITTED TO THE IMF EXECUTIVE BOARD;**
- (5) MEXICO WILL PROVIDE APPROPRIATE INFORMATION REGARDING ITS PERFORMANCE TO ITS CREDITORS.**

**THE BANKS MAY DECLARE MEXICO IN DEFAULT UNDER THE AGREEMENT IF THEY DETERMINE, BASED ON THE IMF'S COMMENTS AND CONCLUSIONS, THAT MEXICO'S FINANCIAL PROGRAM IS "MATERIALLY INCOMPATIBLE" WITH SUSTAINED GROWTH AND A VIABLE EXTERNAL PAYMENTS CONSISTENT WITH CONTINUING DEBT SERVICE (UNDER THE AGREEMENT, MEXICO HAS NOT EXPLICITLY COMMITTED ITSELF TO PROVIDE THE FULL DOCUMENTATION TO ITS CREDITORS, ALTHOUGH IT IS OUR UNDERSTANDING THAT THIS IS THE CLEAR INTENTION).**

**THE MEXICAN SURVEILLANCE UNDERSTANDING MARKS ANOTHER STEP IN THE EVOLUTION OF THE IMF SURVEILLANCE, WHICH INVOLVES SOME RISKS, AND A NEED FOR CAREFUL IMPLEMENTATION. HOWEVER, IT PROVIDES A UNIQUE OPPORTUNITY TO PROMOTE EFFECTIVELY SOUND ECONOMIC POLICIES IN MEMBER COUNTRIES THAT HAVE COMPLETED THEIR INITIAL ADJUSTMENT AND NO LONGER NEED IMF FINANCING.**



IN SUCH CASES, IT WILL BE IMPORTANT FOR THE BANKING COMMUNITY AND OTHER CREDITORS TO UNDERSTAND THAT IMF STAFF AND MANAGEMENT ARE NOT MAKING RECOMMENDATIONS ON WHETHER TO LEND TO A COUNTRY AND REGARDING THE AMOUNTS AND TERMS OF DEBT RESTRUCTURING. DECISIONS ON WHETHER AND HOW MUCH TO LEND, AND THE RISK, AND REWARD INHERENT IN THOSE DECISIONS, STILL REST WITH THE CREDITOR AGENCIES. THE IMF'S ROLE, AS FAR AS THE ENHANCED SURVEILLANCE IS CONCERNED, SHOULD BE PRIMARILY TO IMPROVE UNDERSTANDING OF THE ECONOMIC SITUATION AND ITS POSSIBLE IMPLICATIONS FOR THE FUTURE, WHILE LEAVING IT TO PRIVATE CREDITORS TO USE THE INFORMATION AND ANALYSIS FROM THE FUND AS ONE OF A NUMBER OF FACTORS IN REACHING THEIR DECISIONS.

OTHER CASES OF MULTI-YEAR RESCHEDULING CONNECTED WITH "ENHANCED" FUND SURVEILLANCE ARE ALREADY APPEARING, FOR EXAMPLE, IN VENEZUELA.

#### OTHER POSSIBLE CASES

THE MEXICAN OR VENEZUELAN CASES REPRESENT EXAMPLES OF COUNTRIES WHICH HAVE DEMONSTRATED THAT THEY ARE ADJUSTING, HAVE IMPROVED THEIR CREDITWORTHINESS, AND HAVE THE ABILITY TO DEVELOP AND IMPLEMENT SOUND ECONOMIC PROGRAMS. WE MAY ALSO WANT TO CONSIDER WHETHER PROCEDURES FOR "INTENSIFIED" SURVEILLANCE PROCEDURES MIGHT BE APPROPRIATE IN CASES WHERE THE FUND DECIDES THAT FURTHER ACCESS TO IMF RESOURCES FOR AN INDIVIDUAL COUNTRY IS NO LONGER APPROPRIATE, OR THE MEMBER DECIDES THAT IT NO LONGER WISHES TO HAVE A PROGRAM WITH THE FUND.

IN THESE CASES, DESPITE THE NEED TO CURTAIL OR STOP FOR A PERIOD OF TIME THE USE OF FUND RESOURCES, SOME FORM OF INTERNATIONAL SURVEILLANCE MAY REMAIN ESSENTIAL TO KEEP THE COUNTRY ON A SOUND ECONOMIC PATH, TO AVOID MORE SERIOUS ECONOMIC DISRUPTIONS, AND TO CATALYZE LENDING OR FINANCIAL ASSISTANCE FROM OTHER INSTITUTIONS. THESE CASES, HOWEVER, DIFFER SIGNIFICANTLY FROM THE MEXICAN CASE: SERIOUS ADJUSTMENT PROBLEMS, POSSIBLY OF A STRUCTURAL NATURE, PROBABLY STILL REMAIN TO BE ADDRESSED. OTHER FINANCING IS ALSO LIKELY TO COME PRIMARILY FROM OFFICIAL SOURCES (SUCH AS THE WORLD BANK OR BILATERAL OFFICIAL DEVELOPMENT ASSISTANCE), RATHER THAN PRIVATE COMMERCIAL BANKS.

INSTANCES OF PROLONGED USE OF IMF RESOURCES MAY PROVIDE A POSSIBLE OPPORTUNITY FOR "INTENSIFIED" FUND SURVEILLANCE IN COMBINATION WITH ADDITIONAL FINANCIAL ASSISTANCE FROM OTHER SOURCES.

IN OUR EARLIER DISCUSSIONS ON THE ROLE OF THE IMF, WE RECOGNIZED THAT PROLONGED USE OF FUND RESOURCES WAS BECOMING AN INCREASING PROBLEM WHICH THREATENED TO UNDERMINE THE REVOLVING MONETARY CHARACTER OF THE FUND. THE FUND'S ARTICLES OF AGREEMENT PROVIDE FOR DRAWINGS ON FUND RESOURCES BY MEMBER COUNTRIES WITH TEMPORARY BALANCE OF PAYMENT PROBLEMS, WHILE THEY ADJUST. IN SOME OF THESE CASES, HOWEVER, THE COUNTRIES FACE MEDIUM- OR LONGER-TERM BALANCE OF PAYMENTS PROBLEMS. IN SUCH CASES, IT MAY

BE THAT THE STRUCTURAL PROBLEMS INVOLVED CANNOT BE CORRECTED IN THE NORMAL TIME FRAME FOR FUND PROGRAMS. OTHER FORMS OF FINANCING MAY THEREFORE BE MORE APPROPRIATE, YET MAY NOT BE FORTHCOMING WITHOUT AN ASSURANCE OF A SOUND MACROECONOMIC PROGRAM.

THE BOARD MAY DECIDE THAT THE FUND SHOULD CONTINUE TO PROVIDE MODEST SUPPORT TO SOME OF THESE "PROLONGED USE" COUNTRIES, THROUGH PROGRAMS CONSISTENT WITH THE AGREED GUIDELINES ON ACCESS LIMITS. IN OTHER CASES, IT MAY BE USEFUL TO LIMIT THE FUND'S INVOLVEMENT TO SPECIAL FORMS OF INTENSIFIED SURVEILLANCE. IN PARTICULAR, THIS MAY BE THE CASE WHERE A COUNTRY MAY BE AT--OR MAY SOON BE APPROACHING--ITS CUMULATIVE ACCESS LIMITS, AND THEREFORE MAY BE INELIGIBLE FOR ADDITIONAL NET FUND FINANCING, EXCEPT UNDER EXCEPTIONAL CIRCUMSTANCES, UNTIL REPURCHASES HAVE RESTORED THEIR ACCESS TO FUND RESOURCES. IN EFFECT, THIS MEANS THAT NO NEW ADJUSTMENT PROGRAMS COULD BE NEGOTIATED FOR A PERIOD OF TIME, EVEN IF ADJUSTMENT HAS NOT BEEN COMPLETED.

BASIC GUIDELINES FOR "ENHANCED" OR "INTENSIFIED"  
SURVEILLANCE

IT WOULD BE USEFUL FOR THE G-10 TO CONSIDER WHETHER THERE ARE SOME GENERAL GUIDELINES FOR "ENHANCED" OR "INTENSIFIED" SURVEILLANCE THAT COULD BE PART OF OUR GENERAL EFFORTS TO STRENGTHEN FUND SURVEILLANCE. THE FOLLOWING GUIDELINES, WHICH COULD EQUALLY WELL APPLY TO OTHER CASES OF MULTI-YEAR RESCHEDULINGS, OR CASES INVOLVING PROLONGED USE, MIGHT BE CONSIDERED, POSSIBLY WITH SOME VARIATION, AS APPROPRIATE, FOR INDIVIDUAL CASES:

- (1) "ENHANCED" IMF SURVEILLANCE SHOULD BE RESERVED FOR CASES WHERE NO IMF FINANCING IS INVOLVED AND BOTH THE DEBTOR COUNTRY AND ITS MAJOR CREDITORS SEEK SPECIAL IMF INVOLVEMENT TO FACILITATE NON-IMF BORROWING.
- (2) THE FUND SHOULD NOT BE IN THE POSITION OF DECIDING WHETHER ANY FINANCING BY OTHER INSTITUTIONS REMAINS IN FORCE, NOR SHOULD IT BECOME A DE FACTO GUARANTOR FOR SUCH LENDING. FOR EXAMPLE, THERE SHOULD NOT BE ANY COMMITMENT BY THE FUND TO PROVIDE RENEWED FUNDING IF PROBLEMS ARISE IN THE FUTURE WHICH IMPAIR THE ABILITY OF THE COUNTRY TO BORROW COMMERCIALY. NEW FUND LENDING SHOULD CONTINUE TO BE DECIDED IN ACCORDANCE WITH FUND POLICY AND BASED ON THE MERITS OF INDIVIDUAL CIRCUMSTANCES.
- (3) ADEQUATE ARRANGEMENTS SHOULD BE MADE FOR INFORMATION TO BE AVAILABLE TO THE IMF AND TO CREDITORS IN ORDER TO ENABLE THE FUND AND THE CREDITORS TO MAKE INFORMED ASSESSMENTS OF THE ECONOMIC AND FINANCIAL SITUATION OF THE DEBTOR COUNTRY.
- (4) COUNTRY ECONOMIC PROGRAMS SHOULD NORMALLY INCLUDE



MEANINGFUL, QUANTITATIVE TARGETS TO FACILITATE THE MEASUREMENT OF ECONOMIC PERFORMANCE. THE FUND SHOULD BE INVOLVED IN ADVISING THE MEMBER COUNTRY REGARDING THE DEVELOPMENT OF THE ECONOMIC PROGRAM AND SETTING APPROPRIATE QUANTITATIVE TARGETS. WHERE THE WORLD BANK HAS BEEN AMONG CREDITORS SUPPORTING "ENHANCED" IMF SURVEILLANCE FOR A COUNTRY, IT MIGHT ALSO BE INVOLVED IN THE DEVELOPMENT OF STRUCTURAL ADJUSTMENT MEASURES THROUGH A STRUCTURAL ADJUSTMENT LOAN (SAL).

- (5) THE EXECUTIVE BOARD SHOULD APPROVE IMF PARTICIPATION IN CASES INVOLVING A SPECIAL IMF ROLE IN A PROCESS OF ENHANCED SURVEILLANCE. DURING THE PERIOD OF ENHANCED SURVEILLANCE, THE EXECUTIVE BOARD SHOULD, OF COURSE, REVIEW ANY IMF STAFF ANALYSES WHICH ARE PART OF THE PROCESS.

#### QUESTIONS FOR DISCUSSION

WE MAY WISH TO DISCUSS THESE BASIC PRINCIPLES FURTHER IN ORDER TO MODIFY OR REFINE THEM. OUR OBJECTIVE WOULD BE TO DEVELOP GUIDELINES, RECOGNIZING THAT THESE GUIDELINES MIGHT HAVE TO BE MODIFIED IN LIGHT OF EXPERIENCE IN INDIVIDUAL CASES. THE DEPUTIES SHOULD ALSO DISCUSS THE FOLLOWING ISSUES TO SEE IF WE CAN DEVELOP COMMON GUIDELINES IN THESE AREAS AS WELL, OR IF THESE ELEMENTS WILL VARY FROM CASE TO CASE:

- (1) SHOULD ANY SPECIAL STEPS BE TAKEN TO SAFEGUARD THE FUND'S NEUTRALITY IN CASES OF ENHANCED SURVEILLANCE?
- (2) SHOULD THERE BE BROAD AGREEMENT ON THE KINDS AND FREQUENCY OF INFORMATION REQUIRED TO BE SUPPLIED BY THE MEMBER COUNTRY TO THE IMF? ARE SEMI-ANNUAL CONSULTATIONS SUFFICIENT/APPROPRIATE?
- (3) THERE ARE SEVERAL POSSIBLE ISSUES WITH REGARD TO THE PROVISION OF INFORMATION:
  - (A) WHO SHOULD DECIDE WHAT INFORMATION IS RELEASED TO THE CREDITORS?
  - (B) WHO SHOULD RELEASE IT?
  - (C) SHOULD INFORMATION BE PROVIDED ON A CONFIDENTIAL BASIS TO THE CURRENT CREDITORS OR BE GIVEN TO POTENTIAL FUTURE LENDERS AS WELL (I.E., TO ANYONE WHO REQUESTS IT)?
  - (D) SHOULD THERE BE A RELATIONSHIP BETWEEN PROVISION OF THIS INFORMATION TO CREDITORS AND OUR APPROACH TO PUBLICITY FOR ARTICLE IV CONSULTATIONS GENERALLY?

- (4) WHAT SHOULD BE THE CRITERIA FOR DETERMINING THE INITIAL QUANTITATIVE TARGETS AND UNDER WHAT CIRCUMSTANCES MIGHT THEY BE MODIFIED DURING THE COURSE OF THE PROGRAM?
- (5) WHAT ROLE, IF ANY, SHOULD THE WORLD BANK HAVE IN THE CONTEXT OF ENHANCED SURVEILLANCE?
- (6) WHAT SHOULD BE THE ROLE OF THE CREDITORS, PUBLIC AND PRIVATE, IN THIS PROCESS?