

*International Debt  
file*

UNCLASSIFIED  
DESKBY FCO 250800Z  
FM UKDEL IMF/IBRD WASHINGTON 250330Z SEPTEMBER 84  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 203 OF 24 SEP  
AND TO IMMEDIATE UKMIS NEW YORK

PLEASE ADVANCE TO HM TREASURY (JOHN PAGE) AND ERD  
FOLLOWING IS TEXT OF SPEECH TO BE DELIVERED BY CHANCELLOR OF  
EXCHEQUER AT IMF/IBRD ANNUAL MEETINGS AT 10.30 AM WASHINGTON TIME  
ON TUESDAY, SEPTEMBER 25.

FOR UKMIS NEW YORK ONLY: OUR TELNO 4 REFERS.

#### INTRODUCTION

I SHOULD LIKE AT THE OUTSET TO JOIN MY COLLEAGUES IN EXTENDING  
A VERY WARM WELCOME TO OUR TWO NEW MEMBERS -- SAINT CHRISTOPHER  
AND NEVIS, AND MOZAMBIQUE.

A YEAR AGO MOST OF US SAW THREE MAIN EXTERNAL THREATS TO OUR  
NATIONAL ECONOMIES: UNCERTAINTY OVER THE PROSPECTIVE WORLD ECONOMIC  
RECOVERY, HIGH INTEREST RATES, THE INTERNATIONAL DEBT DIFFICULTIES.  
I WOULD LIKE TODAY TO LOOK AT EACH IN TURN.

BEFORE DOING SO I WILL, AS LAST YEAR, SAY SOMETHING ABOUT THE  
EXPERIENCE OF MY OWN COUNTRY.

#### THE UK ECONOMY

DEVELOPMENTS IN THE UK OVER THE PAST YEAR HAVE BEEN MUCH  
AS I FORESAW WHEN I SPOKE AT THIS MEETING LAST YEAR. WE ARE NOW  
IN THE FOURTH SUCCESSIVE YEAR OF STEADY RECOVERY. AS EXPECTED,  
THE PATTERN OF THE RECOVERY HAS CHANGED. FIXED INVESTMENT  
AND EXPORTS HAVE BOTH GROWN RAPIDLY OVER THE PAST YEAR WHILE  
CONSUMER SPENDING HAS GROWN MORE SLOWLY. IN PARTICULAR, MANUFACT-  
URING INVESTMENT IN THE FIRST HALF OF 1984 WAS ABOUT 15 PER CENT  
UP IN REAL TERMS ON A YEAR AGO. AT THE SAME TIME THE INFLATION  
RATE HAS REMAINED BROADLY FLAT AT 5 PER CENT, A PATTERN WHICH  
HAS PERSISTED NOW FOR SOME 18 MONTHS.

FISCAL AND MONETARY POLICY HAVE DEVELOPED AS INTENDED. BOTH  
BROAD AND NARROW MEASURES OF MONEY ARE GROWING AT A RATE WELL  
WITHIN THEIR TARGET RANGES. AND WE ARE CONTINUING TO REDUCE THE  
BUDGET DEFICIT. LAST YEAR IT WAS OVER 3 PER CENT OF GDP. THIS  
YEAR WE BUDGETED FOR 2 AND A QUARTER PER CENT OF GDP AND PRESENT  
INDICATION SUGGEST THAT WE REMAIN BROADLY ON TARGET.

GROWTH LAST YEAR WAS 3 AND QUARTER PER CENT. THIS YEAR THE  
FALL IN COAL OUTPUT AS A RESULT OF THE CONTINUING MINERS STRIKE  
IS EQUIVALENT TO ALMOST 1 PER CENT OF GDP IN 1984, AND GROWTH THIS  
YEAR MAY THEREFORE BE CLOSER TO 2 PER CENT THAN THE 3 PER CENT  
PREVIOUSLY EXPECTED.

/BY

BY THE SAME TOKEN, GROWTH NEXT YEAR SHOULD BENEFIT BY ABOUT 1 PER CENT AS COAL OUTPUT RETURNS TO ITS NORMAL LEVEL. AS A RESULT, I WOULD EXPECT RECORDED GROWTH NEXT YEAR TO BE HIGHER THAN THIS YEAR.

WHILE NONE OF US CAN CLAIM ACTUALLY TO HAVE ABOLISHED THE BUSINESSCYCLE, THE POLICIES WHICH THE UK, IN COMMON WITH MANY OTHER INDUSTRIALISED COUNTRIES, HAS BEEN FOLLOWING FORM A SOUNDER BASIS FOR SUSTAINABLE GROWTH THAN WE HAVE KNOWN IN THE PAST.

SO FAR AS MY OWN COUNTRY IS CONCERNED, THAT IS BORNE OUT BY THE IMPORTANT DIFFERENCES BETWEEN THIS RECOVERY AND PREVIOUS RECOVERIES.

THERE HAS BEEN NO SIGNIFICANT STOCKBUILDING. THIS MEANS THERE IS MUCH LESS CHANCE OF A SHARP STOCKBUILDING CYCLE. THERE IS LITTLE THREAT FROM HIGHER INFLATION, WHICH SO OFTEN HAS BEEN AN IMPORTANT FACTOR IN CYCLICAL SLOWDOWN. IN ADDITION, THE DIFFERENT PHASING OF OUTPUT GROWTH IN THE US AND EUROPE MEANS THAT THE GROWTH OF WORLD TRADE SHOULD BE MORE EVEN. AND COMMODITY PRICES, INCLUDING OIL, ARE SHOWING WEAKNESS RATHER THAN THE RAPID GROWTH OF THE LAST TWO CYCLICAL UPSWINGS.

IN PREVIOUS CYCLES INFLATION HAS TENDED TO RISE AS SOON AS RECOVERY HAS BECOME WELL ESTABLISHED. AS A RESULT, MANY COMMENTATORS HAVE ARGUED THAT AN INFLATION UPTURN IN THE UK IS IMMINENT. WE TAKE A DIFFERENT VIEW. OUR ANALYSIS SUGGESTS THAT THE PRESSURES MAKING FOR HIGHER INFLATION ARE NOT STRONG. MONETARY GROWTH CONTINUES TO DECLINE, AND COMPETITIVE PRESSURES ARE LIKELY TO CONTINUE TO RESTRAIN PRICE INCREASES. THE UNDERLYING TREND OF INFLATION IS STILL DOWNWARD. THIS PERFORMANCE OF INFLATION DURING THE CURRENT RECOVERY HAS CONVINCINGLY REVERSED THE SECULAR UPWARD TREND OF THE LAST TWO DECADES.

THE ONE OUTSTANDING WORRY IS UNEMPLOYMENT, WHICH IS NOT ONLY FAR TOO HIGH BUT CONTINUES TO RISE.

NOT THAT NEW JOBS ARE NOT BEING CREATED. OVER THE YEAR TO LAST MARCH, THE NUMBER OF PEOPLE IN WORK IN THE UK HAS RISEN BY AROUND A QUARTER OF A MILLION--ABOUT DOUBLE THE RISE IN UNEMPLOYMENT OVER THE SAME PERIOD.

BUT WE OUGHT TO BE DOING BETTER THAN THIS. TO SOME EXTENT, OF COURSE, THE RISE IN UNEMPLOYMENT IS THE TEMPORARY CONSEQUENCE OF THE LONG OVERDUE SUCCESS OF BRITISH INDUSTRY IN MAKING ITSELF MORE COMPETITIVE BY CUTTING COSTS AND IMPROVING PRODUCTIVITY.

BUT THE HEART OF THE PROBLEM-- AND HERE THE CONTRAST WITH THE UNITED STATES IS PARTICULARLY STRIKING--HAS BEEN THE STEADY GROWTH IN REAL WAGES.

WE MUST NOT BE SEDUCED BY THE WONDERS OF HIGH-TECH INTO OVERLOOKING THE FACT THAT MANY OF THE JOBS OF THE FUTURE WILL BE IN LABOUR-INTENSIVE SERVICE INDUSTRIES WHICH ARE NOT SO MUCH LOW-TECH AS NO-TECH.

I SEE LITTLE PROSPECT OF REVERSING THE TREND OF UNEMPLOYMENT UNLESS WE CAN DECISIVELY MODERATE THE GROWTH OF REAL WAGES. AS THE MANAGING DIRECTOR PUT IT IN A SPEECH TO THE ECONOMIC AND SOCIAL COUNCIL OF THE UNITED NATIONS LAST JULY:

QUOTE THERE ARE NOW CLEAR INDICATIONS THAT IN SOME OF THE MAJOR INDUSTRIAL COUNTRIES, ESPECIALLY IN EUROPE, THE PRESENT COST OF LABOUR MAY BE INCOMPATIBLE WITH THE ATTAINMENT OF HIGH EMPLOYMENT GOALS. UNQUOTE.

THIS MEANS THAT IT HAS BECOME MORE IMPORTANT THAN EVER TO REMOVE RIGIDITIES IN THE LABOUR MARKET AND PRODUCT MARKETS ALIKE.

IN RECENT YEARS THE EMPHASIS OF POLICY IN MANY COUNTRIES, INCLUDING THE UK, HAS BEEN ON FINANCIAL STABILISATION. AND WE HAVE SEEN THE BENEFITS OF THAT STABILISATION. BUT WHILE MAINTAINING THIS POLICY INTACT WE NEED TO PLACE MORE EMPHASIS ON SUPPLY SIDE POLICY IN THE TRUE SENSE OF THAT MUCH-ABUSED TERM: IN DEALING WITH THE STRUCTURAL PROBLEMS WHICH ARE THE CAUSE OF THE CONTINUING HIGH LEVEL OF UNEMPLOYMENT WHICH SO MANY OF US FACE TODAY.

#### THE WORLD ECONOMY

IN THE INDUSTRIALISED WORLD AS A WHOLE, RECOVERY HAS IN GENERAL BEEN STRONGER EVEN THAN THE HOPES, LET ALONE THE FEARS, OF A YEAR AGO. THE IMF STAFF'S LATEST FORECAST FOR GROWTH THIS YEAR SHOWS A FURTHER UPWARD REVISION. AND ALMOST ALL MAJOR FORECASTERS EXPECT REASONABLE RATES OF GROWTH TO CONTINUE NEXT YEAR, AND WITH A LESS UNEVEN DISTRIBUTION.

THE POSITION OF MANY DEVELOPING COUNTRIES, AND I WILL COME BACK TO THIS, HAS ALSO STRENGTHENED. THE CURRENT ACCOUNT DEFICIT OF THE NON-OIL DEVELOPING COUNTRIES THIS YEAR IS EXPECTED TO BE ONLY DOLLARS 45 BILLION, LESS THAN HALF ITS LEVEL IN 1981. THIS IMPROVEMENT HAS REFLECTED IN MANY CASES CUT-BACKS IN IMPORTS AND NATIONAL INCOME. WE RECOGNISED AT THE LONDON SUMMIT THE SOCIAL AND POLITICAL HARDSHIPS THIS INVOLVES. BUT SUCH ADJUSTMENT IS PAVING THE WAY FOR RENEWED AND SUSTAINABLE FUTURE GROWTH. THE PROCESS MUST CONTINUE, BUT WE SHOULD BE LOOKING NOW FOR EMPHASIS ON THE POSITIVE ASPECTS OF MAINTAINING AND FINANCING HEALTHY GROWTH.

#### TRADE AND CAPITAL FLOWS

IN THE TRADE FIELD THERE IS AGREEMENT TO BEGIN PRELIMINARY CONSULTATIONS ON A NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS. WITH RECOVERY BEING SUSTAINED I HOPE WE NEED NOT WAIT FOR THAT NEGOTIATION BEFORE TAKING ACTION TO ROLL BACK PROTECTIONIST BARRIERS: NOT JUST TARIFFS BUT SUBSIDIES AND OTHER DISTORTIONS.

WITH AN OVERVALUED DOLLAR CAUSING IMPORTS TO FLOOD INTO THE UNITED STATES, WITH HIGH AND RISING UNEMPLOYMENT IN EUROPE, AND WITH THE CONTINUING HARDSHIP FACED BY MUCH OF THE DEVELOPING WORLD, THE PRESSURES FOR PROTECTIONISM ARE VERY STRONG INDEED. IT IS ESSENTIAL THAT WE RESOLVE ALL THE MORE STRONGLY TO RESIST THEM.

NOTHING COULD BE MORE SELF-DEFEATING THAN A WORLDWIDE DRIFT TO PROTECTIONISM. AND FEW THINGS WOULD BE MORE DAMAGING TO OUR BURGEONING RECOVERY.

THE PAST YEAR HAS ALSO SEEN PROGRESS IN PROMOTING THE FREE FLOW OF CAPITAL BETWEEN COUNTRIES. I HAVE PARTICULARLY IN MIND THE STEPS ANNOUNCED BY THE JAPANESE GOVERNMENT TO PROMOTE THE INTERNATIONAL USE OF THE YEN. THIS INVOLVES A CONTINUING PROGRAMME OF SPECIFIC MEASURES, AND WE WILL FOLLOW DEVELOPMENTS HERE WITH CLOSE INTEREST.

IN SHORT, IN THE FIRST OF OUR THREE MAIN AREAS OF CONCERN, THE FUTURE COURSE OF WORLD ECONOMIC ACTIVITY, WE HAVE A DISTINCTLY IMPROVED CLIMATE, AND THE MEDIUM-TERM PROSPECTS FOR WIDELY-SHARED RECOVERY ARE BETTER THAN FOR MANY YEARS PAST.

#### INTEREST RATES.

INTEREST RATES ON THE OTHER HAND REMAIN A DOMINANT CONCERN FOR MOST OF US, AND I MUST LINK THIS WITH THE SITUATION IN THE US. THE US ACCOUNTS FOR ONE-FIFTH OF WORLD GNP AND SOME 15 PERCENT OF WORLD TRADE. SO US POLICIES CANNOT SIMPLY BE JUDGED BY DOMESTIC CRITERIA, EVEN IN ECONOMIC TERMS, QUITE APART FROM THE RESPONSIBILITIES THAT ACCRUE TO THE UNITED STATES AS THE LEADER OF THE FREE WORLD.

ON THE DOMESTIC SIDE, THE US ACHIEVEMENT HAS BEEN REMARKABLE BY ANY POST-WAR STANDARDS. IN PARTICULAR THE CREATION OF OVER 6 MILLION NEW JOBS SINCE THE END OF 1982 OWES A GREAT DEAL TO THE FLEXIBILITY OF THE US LABOUR MARKET AND THE MODERATE INCREASES IN REAL LABOUR COSTS COMPARED WITH MOST OTHER LEADING INDUSTRIAL COUNTRIES IN RECENT YEARS.

SUCCESS IN THE CREATION OF NEW JOBS AND THE VIGOROUS GROWTH OF OUTPUT IN THE LAST TWO YEARS REFLECT THE ADMIRABLE STRENGTH AND RESILIENCE OF THE US ECONOMY. BUT THERE ARE OTHER FEATURES THAT REPRESENT A CAUSE FOR REAL CONCERN.

ALTHOUGH THE US BUDGET DEFICIT MAY BE LOWER AS A PROPORTION OF GDP THAN THAT OF SOME OTHER MAJOR INDUSTRIAL COUNTRIES, IT HAS GROWN VERY LARGE IN RELATION TO THE LEVEL OF NET DOMESTIC SAVINGS. AND ITS SHEER SIZE WEIGHS HEAVILY IN THE DEMAND FOR SAVINGS WORLDWIDE. AS THE RECOVERY STIMULATES A GROWING PARALLEL DEMAND FOR PRIVATE INVESTMENT, WITHOUT ANY MATCHING GROWTH OF DOMESTIC SAVINGS, WE SEE TWO EFFECTS. INTEREST RATES ARE HELD AT UNPRECEDENTED LEVELS IN REAL TERMS, AND THE NEEDS OF THE US ECONOMY PRE-EMPT A LARGE SHARE OF THE SAVINGS OF THE REST OF THE WORLD.

/THE

THE NEED TO ATTRACT INCREASING CAPITAL INFLOWS FROM THE REST OF THE WORLD TO FINANCE THE BUDGET DEFICIT HAS AS ITS INEVITABLE COUNTERPART - FOR THE EXTERNAL ACCOUNTS HAVE TO BALANCE - A CURRENT ACCOUNT TRADE AND PAYMENTS DEFICIT OF GETTING ON FOR DOLLARS 100 BILLION A YEAR, AND STILL RISING: WHILE THE UNPRECEDENTED RATE OF INTEREST ON THE WORLD'S LEADING RESERVE CURRENCY HAS INEVITABLY LED TO A SHARP RISE IN THE VALUE OF THE DOLLAR IN TERMS OF OTHER CURRENCIES.

I COME FROM A COUNTRY THAT HAS EXPERIENCE FROM THE PAST OF THE ADVANTAGES - AND ALSO OF THE RISKS AND THE RESPONSIBILITIES - OF OPERATING A RESERVE CURRENCY. THE ABILITY TO BORROW ABROAD IN ONE'S OWN CURRENCY GIVES OPPORTUNITY AND TIME WHICH WOULD NOT OTHERWISE BE AVAILBALE, TO SOME EXTENT AT THE EXPENSE OF THE REST OF THE WORLD. BUT WE ALSO HAVE EXPERIENCE OF THE CONSEQUENCES THAT OCCUR WHEN THIS SPECIAL PRIVILEGE IS ABUSED.

IMBALANCES, IN THE BUDGET AND IN THE TRADE AND CURRENT ACCOUNTS, OF THE SIZE WE ARE NOW SEEING IN THE UNITED STATES CAN CONTINUE FOR MUCH LONGER THAN THEY COULD IN ANY OTHER COUNTRY. BUT THEY CANNOT BE SUSTAINABLE FOREVER.

AND MEANWHILE, THE PROBLEM OF INTERNATIONAL DEBT, TO WHICH I WILL TURN IN A MOMENT, IS GREATLY EXACERBATED.

THE US AUTHORITIES HAVE THEMSELVES POINTED THE WAY AHEAD WITH THEIR IMPORTANT QUOTE DOWN PAYMENT UNQUOTE DECISION. TIMELY REINFORCEMENT OF THAT APPROACH WILL BE CRUCIAL IF THE PROCESS OF ADJUSTMENT IS NOT TO END IN TEARS.

PERHAPS, HERE IN WASHINGTON, IT WOULD BE APPROPRIATE FOR ME TO CONCLUDE THIS SECTION OF MY SPEECH WITH SOME WORDS OF THOMAS JEFFERSON:

QUOTE

I PLACE ECONOMY AMONG THE FIRST AND MOST IMPORTANT OF REPUBLICAN VIRTUES, AND PUBLIC DEBT AS THE GREATEST OF THE DANGERS TO BE FEARED. TO PRESERVE OUR INDEPENDENCE, WE MUST NOT LET OUR LEADERS LOAD US WITH PERPETUAL DEBT. UNQUOTE +

OPEN SQUARE BRACKETS +

LETTER WRITTEN IN 1816 BY JEFFERSON TO WILLIAM PLUMER QUOTED IN THE 1984 SHANN MEMORIAL LECTURE GIVEN BY JOHN STONE, SECRETARY OF THE AUSTRALIAN TREASURY. + CLOSE SQUARE BRACKETS

INTERNATIONAL DEBT

I TURN NOW TO THE QUESTION OF INTERNATIONAL DEBT. I SUGGESTED LAST YEAR SOME IDEAS GOING BEYOND THE IMMEDIATE STRATEGY ADOPTED BY THE INTERNATIONAL COMMUNITY BUILT AROUND PROGRAMMES OF ADJUSTMENT. SOME OF THOSE IDEAS WERE GARRIED A STAGE FURTHER AT THE RECENT LONDON SUMMIT. I SHOULD LIKE TO SAY A LITTLE MORE ABOUT THEM NOW.

BORROWING OF THE WRONG KIND

I WILL NOT TODAY GO OVER ALL THE ORIGINS OF THE DEBT PROBLEM. BUT IMPORTANT ELEMENTS WERE: TOO MUCH BORROWING AND BORROWING OF THE WRONG KIND. BY BORROWING OF THE WRONG KIND I MEAN UNDUE RELIANCE ON BANK FINANCE.

IN RETROSPECT IT IS EASY TO SEE HOW THIS HAPPENED. FINANCING DIFFICULTIES WERE SUBSTANTIAL AND AROSE RELATIVELY SUDDENLY. THE PRIVATE BANKING SECTOR IS GENERALLY ABLE TO RESPOND MORE QUICKLY TO SUDDEN CHANGE. IT IS THEREFORE PERHAPS NOT SURPRISING THAT THE BANKS TOOK ON THE MAJOR ROLE IN THE RECYCLING PROCESS. INDEED, THE SUBSTANTIAL RECYCLING OF FUNDS THAT TOOK PLACE DURING THE SEVENTIES AND EIGHTIES WAS INITIALLY HELPFUL IN AVOIDING SEVERE DEFLATION IN DEVELOPING COUNTRIES AND PROVIDING THEM WITH TIME TO ADJUST. BUT, WITH THE BENEFIT OF HINDSIGHT, IT IS CLEAR THAT OVERSHOOTING IS A CHARACTERISTIC NOT MERELY OF THE FOREIGN EXCHANGE MARKET. THE PATTERNS AND SCALES OF FINANCING THAT RESULTED AND THE LACK OF CONDITIONALITY ATTACHING TO MOST OF THE FLOWS, MADE THE DEBTOR COUNTRIES AND THE INTERNATIONAL FINANCIAL SYSTEM HIGHLY VULNERABLE TO THE CHANGES IN THE ECONOMIC ENVIRONMENT THAT HAVE OCCURRED SINCE THE END OF THE 1970S.

THE UNHAPPY LEGACY OF THAT PERIOD WHICH WE NOW FACE IS A BURDEN OF LIABILITIES OF DEBTOR COUNTRIES WHICH PRESENT CONSIDERABLE PROBLEMS IN TERMS OF THEIR RELATIVE SIZE, THEIR MATURITY PROFILES AND THE ACCOMPANYING VULNERABILITY TO INTEREST RATE FLUCTUATIONS: AND FOR BANKS POTENTIALLY DESTABILISING DOUBTS AS TO THE TRUE VALUE OF A PART OF THEIR ASSETS.

#### DEBTOR COUNTRIES

SOME DEBTOR COUNTRIES HAVE ACHIEVED CONSPICUOUS SUCCESS IN SOME ASPECTS OF ADJUSTMENT - THE TURN ROUND IN THE BALANCE OF TRADE OF BOTH MEXICO AND BRAZIL ARE NOTABLE EXAMPLES OF WHAT CAN BE ACHIEVED. IF INESCAPABLY AT THE COST OF CONSIDERABLE PAIN AND SACRIFICE. BUT EVEN THOSE COUNTRIES WHICH HAVE TACKLED ADJUSTMENT IN THE MOST DETERMINED FASHION STILL HAVE SOME WAY TO GO. SOME COUNTRIES ARE AS YET ONLY A LITTLE WAY ALONG THE ADJUSTMENT ROAD: AND SOME COUNTRIES HAVE NOT YET MADE A START.

THE NEED FOR FURTHER ADJUSTMENT IS EVIDENT. MANY COUNTRIES STILL HAVE TO CONTEND, IN VARYING DEGREES, WITH HIGH RATES OF INFLATION AND SUBSTANTIAL BUDGET DEFICITS BEYOND THE SCOPE OF FINANCING BY DOMESTIC SAVINGS. SOME ARE STILL CLINGING TO OVERVALUED EXCHANGE RATES, ON THE MISTAKEN GROUNDS THAT THIS WILL MODERATE INFLATION - THE REAL EFFECT IS TO DAMAGE INTERNATIONAL TRADE PERFORMANCE AND DEPRESS AND DISTORT DOMESTIC PRODUCTION. THESE ARE NOT STABLE CONDITIONS. THEY DO NOT MAKE FOR REAL GROWTH OF PROSPERITY.

THE ESSENTIAL POINT, ON A LONGER PERSPECTIVE, IS THAT BORROWING COUNTRIES WILL NEED TO PLACE MORE DEMPHASIS ON CHANGING THE STRUCTURE OF THEIR ECONOMIES TO REDUCE DISTORTIONS AND DISINCENTIVES. MORE CONSIDERATION NEEDS TO BE GIVEN TO WAYS IN WHICH THIS CAN BE ACHIEVED.

CONTINUING ADJUSTMENT IS NEEDED FOR BOTH INTERNAL AND EXTERNAL REASONS, IF THE FUTURE DEVELOPMENT OF THESE COUNTRIES IS TO BE PUT AGAIN ON A SOUND BASIS, AND IF THEY ARE TO RESTORE CONFIDENCE IN THEMSELVES AS WELL AS IN WORLD FINANCIAL MARKETS.

ONE OF THE TRAGEDIES IN MANY DEBTOR COUNTRIES - AND OTHER DEVELOPING COUNTRIES TOO - IS THAT THEY NOT ONLY HAVE DIFFICULTY IN ATTRACTING FOREIGN INVESTORS, BUT THEY HAVE LOST A HUGE VOLUME OF POTENTIAL INVESTMENT BY THE FLIGHT OF CAPITAL FROM THEIR OWN RESIDENTS.

DEBTOR COUNTRIES NEED TO ADOPT POLICIES THAT WILL RESTORE THE CONFIDENCE NOT MERELY OF THE OUTSIDE WORLD BUT ALSO - AND EQUALLY IMPORTANT - OF THEIR OWN PEOPLE. FOREIGN EXCHANGE CONTROLS ARE NOT - AND CANNOT BE - A SUBSTITUTE FOR RESTORING THAT CONFIDENCE. TO IMAGINE OTHERWISE IS AN ILLUSION.

#### PRIVATE FINANCIAL FLOWS

AS DEBT-SERVICING PROBLEMS EMERGED AMONG DEVELOPING COUNTRIES, BANKS THAT HAD LENT TO THEM FACED UNCERTAINTY ABOUT THE VALUE AND MATURITY OF A PROPORTION OF THEIR ASSETS. THEY HAVE RESPONDED TO THIS BY ESTABLISHING A HIGHER LEVEL OF PROVISIONS.

IT IS OF PRIME IMPORTANCE THAT THIS PROCESS CONTINUES: AND THAT BANKS BUILD UP AND MAINTAIN PROVISIONS TO ALLOW FOR THE PROBABILITY OF SOME LOSSES OF VALUE, EVEN WHERE THEY CANNOT WITH ANY CERTAINTY BE IDENTIFIED INDIVIDUALLY. THEY MUST ALSO CONTINUE THE PROCESS OF STRENGTHENING THEIR BALANCE-SHEETS IN OTHER WAYS, NOTABLY BY ADDING TO THEIR CAPITAL RESOURCES.

THERE ARE A NUMBER OF LESSONS FOR THE LONGER TERM. FOR THE INTERNATIONAL FINANCIAL SYSTEM AS A WHOLE IT CAN BE ARGUED THAT A BALANCE NEEDS TO BE MAINTAINED BETWEEN UNCONDITIONAL MARKET LENDING AT COMMERCIAL RATES AND CONCESSIONARY LENDING WHICH WILL, FOR THE MOST PART, BE CONDITIONAL. THE BANKING SYSTEM HAS UNDOUBTEDLY A ROLE TO PLAY BUT IT IS NOT APPROPRIATE FOR IT TO PLAY THE MAJOR ROLE THAT IT HAS IN RECENT YEARS IN FINANCING DEBTOR COUNTRIES' BALANCE OF PAYMENTS DEFICITS. AT THE LEVEL OF THE INDIVIDUAL BANK THE EVENTS OF RECENT YEARS PROVIDE AN ELOQUENT CASE FOR THE NEED TO MAINTAIN AN APPROPRIATELY DIVERSIFIED PORTFOLIO. BANKS AND THEIR SUPERVISORS ARE WELL SEIZED OF THIS ALTHOUGH IT WILL NOT BE QUICKLY ACHIEVED.

BANKS HAVE BEEN PREPARED TO PUT UP SUBSTANTIAL SUMS OF NEW MONEY IN QUOTE UNSPONTANEOUS UNQUOTE LENDING IN SUPPORT OF DEBTORS WHICH HAVE AGREED PROGRAMMES WITH THE IMF. THEY ARE SHOWING A WILLINGNESS TO ADAPT TO THE CHANGING NEEDS OF DEBTORS AT DIFFERENT STAGES OF ADJUSTMENT, AS WITNESS THE IMAGINATIVE AND LONGER-TERM PACKAGE RECENTLY NEGOTIATED FOR MEXICO. THIS CONSTRUCTIVE APPROACH WAS ADVOCATED FOR APPROPRIATE CASES AT THE LONDON SUMMIT.

BUT THE FACT REMAINS THAT IT IS NECESSARY, BOTH IN THE INTERESTS OF DEBTORS AND OF THE BANKS, THAT NON-BANK PRIVATE FLOWS SHOULD GRADUALLY BECOME MORE PROMINENT. THE LONDON SUMMIT ADDRESSED THIS ISSUE AND OUTLINED A STRATEGY TO CREATE A SOUNDER FINANCIAL FRAMEWORK FOR MEDIUM-TERM DEVELOPMENT IN THE PRESENT DEBTOR COUNTRIES. I HAVE MENTIONED MULTI-YEAR RESCHEDULING; LET ME RECALL NOW THREE OTHER IMPORTANT ELEMENTS.

FIRST, A STRONGER ROLE FOR THE WORLD BANK GROUP OF INSTITUTIONS, IN FOSTERING DEVELOPMENT OVER THE MEDIUM AND LONG-TERM, NOT LEAST AS A CATALYST FOR PRIVATE INVESTMENT.

SECOND, THE ENCOURAGEMENT OF PRIVATE INVESTMENT. I WELCOME THE EMPHASIS THE MANAGING DIRECTOR HAS GIVEN TO THE IMPORTANCE OF BORROWING COUNTRIES QUOTE TAKING STEPS TO DISMANTLE OR RELAX ADMINISTRATIVE OR OTHER OBSTACLES WHICH OFTEN APPLY TO INFLOWS OF DIRECT INVESTMENT UNQUOTE. THIS IS A MATTER TO WHICH I BELIEVE THE EXECUTIVE BOARD SHOULD ALWAYS PAY CLOSE ATTENTION BOTH IN ITS REGULAR SURVEILLANCE AND IN ITS EXAMINATION OF COUNTRY PROGRAMMES. AN IMPORTANT ADVANTAGE TO DEVELOPING COUNTRIES, ESPECIALLY DEBTORS, OF SEEKING PRIVATE DIRECT INVESTMENT IS THAT IT CAN SERVICE ITSELF AS, AND ONLY AS, IT CONTRIBUTES TO PROFITABLE OUTPUT. IN THIS CONTEXT, I HOPE WE SHALL BE ABLE TO BRING TO FRUITION A WORKABLE PLAN FOR THE INSURANCE OF PRIVATE OVERSEAS INVESTMENT.

THIRD, ENCOURAGING OTHER FORMS OF FINANCE THAT PROMISE TO BE MORE APPROPRIATE AND STABLE. FOR THE MOMENT, THE FINANCIAL POSITION OF MANY DEBTOR COUNTRIES REMAINS SO PRECARIOUS THAT THE PROVISION OF UNSPONTANEOUS BANK LENDING WILL HAVE TO CONTINUE TO PLAY A PART IN MEETING THEIR IMMEDIATE FINANCING NEEDS. BUT THE RECENT MEXICAN AGREEMENT SHOWS THAT A RETURN TO SPONTANEOUS LENDING IS A PRIZE WITHIN REACH. BEYOND THAT, DEBTOR COUNTRIES SHOULD BE GIVEN ENCOURAGEMENT TO FIND MEANS OF REDUCING THE RELATIVE BURDEN OF BANK DEBT BY OFFERING OPPORTUNITIES FOR MORE STABLE AND APPROPRIATE INVESTMENT -- THE KINDS OF INVESTMENT THEY WILL SURELY IN ANY CASE NEED TO FOSTER IN SUPPORT OF THEIR INTERNAL DEVELOPMENT FOR MANY YEARS TO COME.

BETTER AND HEALTHIER COMMERCIAL WAYS OF FINANCING THE FUTURE NEEDS OF DEVELOPING COUNTRIES COULD BE FOUND IN PRIVATE INVESTMENT, DIRECT AND PORTFOLIO, AND IN LONGER-TERM MARKETABLE INSTRUMENTS. I WOULD LIKE TO SEE BANKS POSITIVELY ENCOURAGING DEVELOPMENTS OF THESE KINDS. MANY OF THEM COULD DOUBTLESS FIND AN ACTIVE ROLE AS AGENTS IN PLACING FINANCIAL INSTRUMENTS THAT COMPLEMENTED, OR IN SOME CASES REDUCED, THE BANKS' OWN LENDING, TO THIS END DEVELOPING A MORE DIRECT RELATIONSHIP BETWEEN SOME OF THEIR PRESENT DEPOSITORS AND THE ULTIMATE BORROWERS.



THE DEVELOPMENT OF SUCH DIFFERENT FORMS OF FINANCING WILL TAKE TIME AND IS LIKELY TO RELATE TO NEW MONEY RATHER THAN THE DIRECT MARKETING OF EXISTING DEBT. BUT THE ACTION ALREADY BEING TAKEN, WITH ADJUSTMENT BOLSTERED BY RESCHEDULING, HAS BOUGHT TIME AND IS HELPING TO CREATE A SITUATION WHERE SOME DEBTORS AT LEAST MAY BEGIN TO CONTEMPLATE RETURNING TO THE BOND MARKET AND WHERE OUTSIDE INVESTORS MAY BE WILLING TO LOOK AGAIN AT PARTICIPATIONS IN LOCAL RESOURCES AND ASSETS. BANKS AND OTHER FINANCIAL INSTITUTIONS SHOULD BE ENCOURAGED TO DEVISE NEW INSTRUMENTS TO BRING STABLE CAPITAL TO COUNTRIES WHOSE UNDERLYING RESOURCES IN MANY CASES ARE SO ABUNDANT.

#### THE LESSON FOR GOVERNMENTS

THE KINDS OF FUTURE FINANCING FLOWS I AM ADVOCATING ARE FOR COMMERCIAL MARKETS TO DEVELOP. THEY ARE NEEDED TO MOBILIZE IN UP-TO-DATE WAYS THE KIND OF FINANCING WHICH HAS BEEN BASED ON PRIVATE RESOURCES IN THE PAST. GOVERNMENTS OF HOST COUNTRIES CAN DO MUCH BY CREATING CONFIDENCE AND A HOSPITABLE CLIMATE. INTERNATIONAL INSTITUTIONS CAN PLAY A VALUABLE ENCOURAGING ROLE, WHICH IS WHY I WARMLY WELCOME THE EFFORTS, FOR EXAMPLE, OF THE WORLD BANK TO PROMOTE JOINT VENTURES AND CO-FINANCING, AND THE IDEAS THE IFC HAS BEEN NURTURING FOR THE DEVELOPMENT OF UNIT AND INVESTMENT TRUST OUTLETS IN SOME DEVELOPING COUNTRIES.

GOVERNMENTS OF CREDITOR COUNTRIES CAN AND SHOULD OFFER ENCOURAGEMENT THEY ARE ALSO DIRECTLY INVOLVED WITH DEBTOR COUNTRIES, LARGELY THROUGH THEIR VARIOUS EXPORT CREDIT AGENCIES, AND ON A LARGE SCALE. THEY HAVE SHOWN READINESS, THROUGH THE PARIS CLUB, TO NEGOTIATE RESCHEDULING ARRANGEMENTS, AND WILL BE PREPARED TO EXTEND THIS APPROACH TO MULTI-YEAR AGREEMENTS WHERE APPROPRIATE, IN PARALLEL WITH NEGOTIATIONS BY COMMERCIAL BANKS. THE UK HAS TAKEN THE INITIATIVE IN PUSHING FORWARD CONSIDERATION OF THE TECHNICAL ISSUES THAT ARISE.

IN THE PAST THE UNITED KINGDOM IN COMMON WITH MANY OTHERS HAS NORMALLY SUSPENDED PROVISION OF OFFICIAL EXPORT COVER TO COUNTRIES WHICH HAVE RESCHEDULED DEBT. WE HAVE REVIEWED THIS POLICY AND SHOULD SHORTLY BE READY IN APPROPRIATE CASES TO MAINTAIN COVER OR RESUME IT AT AN EARLIER STAGE TO SUPPORT CREDIT FOR GOODS WHICH WOULD CONTRIBUTE TO THE ECONOMIC RECOVERY OF THE DEBTOR COUNTRY. IN THIS AREA WE SEE A CASE FOR SOME HARMONISATION OF APPROACH AMONGST INDUSTRIAL COUNTRIES GENERALLY AND I WELCOME THE DISCUSSIONS NOW TAKING PLACE TO THIS END.

BUT BY FAR THE MOST IMPORTANT CONTRIBUTION WHICH GOVERNMENTS OF THE MAJOR CREDITOR COUNTRIES CAN MAKE LIES IN THEIR OWN GENERAL ECONOMIC AND FINANCIAL POLICIES. THE BIGGEST SINGLE CONTRIBUTION SO FAR TOWARDS EASING THE DEBT PROBLEM HAS BEEN THE RECOVERY OF WORLD ECONOMIC ACTIVITY AND, ESPECIALLY DURING THE PAST YEAR, THE RESUMPTION OF MORE VIGOROUS GROWTH OF WORLD TRADE. THE BIGGEST SINGLE CONTRIBUTION WHICH COULD BE MADE OVER THE NEXT YEAR OR SO WOULD BE DEVELOPMENTS OF US POLICIES WHICH COULD LEAD TO LOWER DOLLAR AND WORLD INTEREST RATES.

## THE CASE BY CASE APPROACH

IT IS TEMPTING, OF COURSE, TO SEEK NOW A RADICAL NEW APPROACH TO INTERNATIONAL DEBT. HOWEVER, I DO NOT BELIEVE THAT THAT IS THE WAY FORWARD. THERE IS NO SUCH RADICAL ALTERNATIVE WHICH CAN SATISFACTORILY RESOLVE WHAT IS CLEARLY A HIGHLY COMPLEX PROBLEM. RATHER WE HAVE TO PERSEVERE WITH THE PRESENT APPROACH, VARYING IT AS NECESSARY TO MEET THE PARTICULAR CIRCUMSTANCES AS THEY ARISE. I REMAIN FIRMLY OPPOSED TO THE QUOTE GLOBAL SOLUTIONS UNQUOTE TO THE DEBT PROBLEM WHICH ARE CANVASSED FROM TIME TO TIME. THESE INVARIABLY - IF NOT ALWAYS EXPLICITLY - INVOLVE NEW AND INFLATIONARY METHODS OF FINANCING, OR THE ASSUMPTION BY THE TAXPAYERS OF CREDITOR COUNTRIES OF THE OBLIGATIONS OF THE DEBTOR COUNTRIES OR THE RISKS OF THE BANKS.

THERE IS NO SENSIBLE ALTERNATIVE TO THE CASE-BY-CASE APPROACH WHICH WE HAVE BEEN PURSUING.

CONTRARY TO WHAT IS ALLEGED BY ITS CRITICS, IT REPRESENTS A COHERENT STRATEGY.

IT RESTS ON COMMON PRINCIPLES - ABOVE ALL ON THE CENTRAL IMPORTANCE OF COUNTRIES TAKING MEASURES TO PUT THEIR FINANCES IN ORDER AND RESTORE THEIR CREDITWORTHINESS. BUT IT RECOGNISES THE INESCAPABLE FACT THAT EVERY DEBTOR COUNTRY IS INDIVIDUAL AND DIFFERENT. THEY ALL HAVE DIFFERENT RESOURCES AND ABILITIES, DIFFERENT KINDS AND SCALES OF DEBTS AND INTERNATIONAL FINANCIAL AND ECONOMIC DIFFICULTIES AND OPPORTUNITIES.

AND THE CASE-BY-CASE APPROACH ALSO RECOGNISES THE NEED TO BUY TIME. BORROWING COUNTRIES NEED TIME FOR THE PROCESS OF ADJUSTMENT TO WORK. BANKS NEED TIME TO GET THEIR BALANCE SHEETS IN ORDER. THIS IS A SITUATION ON WHICH TIME - PROVIDED IT IS PUT TO GOOD USE - IS AN INVALUABLE COMMODITY.

## THE LONDON INITIATIVE

AT OUR MEETINGS OVER THE PAST WEEKEND WE WERE ABLE WITHIN THE INTERIM COMMITTEE TO REACH SATISFACTORY OPERATIONAL DECISIONS WHICH WILL PROVIDE CONSTRUCTIVE GUIDANCE TO THE WORK OF THE EXECUTIVE BOARD OF THE FUND IN THE COMING MONTHS.

BUT THE MOST IMPORTANT OUTCOME OF OUR DELIBERATIONS IN THE INTERIM AND DEVELOPMENT COMMITTEES DERIVES FROM THE PROPOSAL CONTAINED IN THE ECONOMIC DECLARATION AT THE END OF THE LONDON SUMMIT LAST JUNE. IT WAS THEN AGREED, BY THE SEVEN NATIONS TAKING PART, THAT FINANCE MINISTERS SHOULD SET UP AN INTENSIVE DISCUSSION OF INTERNATIONAL FINANCIAL ISSUES OF PARTICULAR CONCERN TO DEVELOPING COUNTRIES WITHIN THE FRAMEWORK OF THE ESTABLISHED INTERNATIONAL FINANCIAL INSTITUTIONS.

THIS INITIATIVE RECOGNISED THE CLOSE INTERDEPENDENCE OF DEVELOPING AND DEVELOPED COUNTRIES. IT REFLECTED THE INTEREST THEY SHARE IN A RE-EXAMINATION, IN A MEDIUM-TERM FRAMEWORK, OF ASPECTS OF THE INTERNATIONAL MONETARY SYSTEM, OF EXTERNAL INDEBTEDNESS, THE ROLES OF MULTILATERAL INSTITUTIONS, INTERNATIONAL CAPITAL FLOWS AND INVESTMENT, AND TRADE POLICIES AND PROTECTIONISM. THE CONCERNS EXPRESSED IN THE LONDON DECLARATION HAVE BEEN ECHOED IN OTHER INTERNATIONAL FORA INCLUDING THE RECENT MEETING OF COMMONWEALTH FINANCE MINISTERS IN TORONTO.

AS HOST COUNTRY AT THE LONDON SUMMIT, IT IS THEREFORE OF PARTICULAR SATISFACTION TO THE UNITED KINGDOM THAT AT THE MEETINGS THAT HAVE JUST BEEN CONCLUDED, THE INTERIM AND DEVELOPMENT COMMITTEES HAVE RESPONDED BY DECIDING TO SET TIME ASIDE NEXT SPRING FOR DISCUSSIONS COVERING THE BROAD AREAS I HAVE OUTLINED.

I AM SURE THAT THIS IS THE MOST CONSTRUCTIVE WAY OF MEETING THE VERY UNDERSTANDABLE REQUEST OF DEVELOPING COUNTRIES THROUGHOUT THE WORLD FOR A DIALOGUE WITH THE INDUSTRIALISED NATIONS.

#### CONCLUDING REMARKS

TWO YEARS AGO SAW THE START OF GLOBAL ECONOMIC RECOVERY. THIS YEAR WE CAN REASONABLY CLAIM THAT IT IS WELL ESTABLISHED. IN THE COMING YEAR THE TASK BEFORE US WILL BE TO SUSTAIN IT BY MAKING PROGRESS IN THE FOLLOWING AREAS:

#### WE NEED TO:

- PUT OUR OWN HOUSES IN ORDER BY SECURING STABLE MONETARY CONDITIONS AND REDUCED BUDGET DEFICITS:
- PRESS FORWARD WITH SUPPLY SIDE POLICIES TO IMPROVE PRODUCTIVE POTENTIAL AND EMPLOYMENT:
- RESIST THE FORCES OF PROTECTIONISM AND MOVE TOWARDS A NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS:
- MAINTAIN THE MOMENTUM OF ECONOMIC ADJUSTMENT, WHERE IT IS STILL NEEDED:
- DEVELOP NEW WAYS OF FINANCING THE FUTURE NEEDS OF DEVELOPING COUNTRIES AND RELAX OBSTACLES TO FLOWS OF PRIVATE CAPITAL.

AND LET US IN ALL THESE ENDEAVOURS RECOGNISE THE RESPONSIBILITIES WHICH FLOW FROM THE INTERDEPENDENCE OF OUR ECONOMIES, AN INTERDEPENDENCE OF WHICH THE FUND AND THE BANK ARE SO VALUABLE AN INSTITUTIONAL EXPRESSION.

WICKS

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