
IMF Interim Committee's Madrid Declaration on Cooperation to Strengthen Global Expansion

Following is the declaration of the Interim Committee of the Board of Governors of the International Monetary Fund, issued in Madrid on October 2:

1. The immediate prospects for economic growth in the world economy are better than they have been at any time in this decade. But serious policy challenges remain. For the industrial countries, the most important are to sustain economic growth, reduce unemployment, and prevent a resurgence of inflation. Growth in the developing countries (and in particular, in the poorest countries) must be maintained and extended. The economies in transition must be integrated into the international economy and set firmly on the path of sustainable growth.
2. The planned entry into force of the Uruguay Round trade agreements on January 1, 1995 will enhance world economic prospects by deepening global economic integration. The Committee urges ratification of the agreements without delay, and calls for action to sustain the impetus of trade liberalization and for close cooperation between the IMF and the proposed WTO [World Trade Organization]. The Committee also welcomes the growing trend toward currency convertibility, and encourages member countries to remove impediments to the free flow of capital.
3. The recent success of many developing economies illustrates once again the validity of a strategy based on steadfast implementation of strong programs of macroeconomic adjustment and structural reform. The Committee urges other countries to follow a similar bold strategy for sustained economic growth and domestic and external financial stability. Such efforts by developing countries must be supported by a global environment characterized by improved access to industrial country markets and timely financial support on appropriate terms, including a flexible approach to official bilateral debt reduction for low-income countries, in the context of strong policies.
4. The impressive turnaround in several economies in transition also attests to the benefits of macroeconomic discipline and structural reforms. The Committee urges all other economies in transition to be bolder in their approaches to stabilization and reform. Experience has demonstrated the central importance of early fiscal reforms and firm monetary discipline in the early stages of the transformation process to achieve financial stability. This needs to be accompanied by institution-building, price and external sector liberalization, enterprise restructuring and privatization, and financial sector reform. Social safety nets that are well targeted and cost efficient are also necessary to alleviate the adverse impact of higher open unemployment. As in the case of developing countries, the Committee recognizes the importance of a supportive international environment.
5. The improved economic outlook for the industrial countries creates an opportunity for them to strengthen growth and reduce unemployment, while safeguarding the progress toward price stability. The Committee attaches particular importance to the following three elements of a common strategy:

-
- Structural reforms to eliminate impediments to sustained growth, including steps to dismantle nontariff trade barriers and to ensure the long-term financial viability of health care and public pension systems. The Committee notes that problems of long-term unemployment and lack of jobs for young and unskilled persons should be addressed by efforts to improve education and training and by fundamental labor market reforms to reduce disincentives to employment.
 - A strengthening of fiscal consolidation efforts in 1995 and beyond as part of a medium-term strategy to significantly reduce fiscal deficits beyond the effects of cyclical recovery, and cut debt-to-GDP ratios, thereby facilitating lower real interest rates. The Committee notes in particular that countries with especially serious fiscal problems must not delay major corrective action.
 - Readiness to adjust monetary conditions to maintain price stability, as a condition for sustaining medium-term growth, including by timely increases in interest rates with a view to preventing the emergence of inflationary pressures. This will reinforce the hard-won credibility of anti-inflationary monetary policies.
6. The Interim Committee will review progress in implementing the agreed common strategy at its spring 1995 meeting.

SOURCE: *IMF Survey*, 17 October 1994.