

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL FINANCE CORPORATION  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
INTERNATIONAL MONETARY FUND

Press Release No. 46

October 3, 1979

Statement by the Hon. ANTONIO de SOUSA FRANCO, Minister of Finance  
and Governor of the Bank for PORTUGAL, at  
the Joint Annual Discussion

It is my great pleasure to participate in these Annual Sessions of the Board of Governors of the World Bank Group and the IMF. I wish to join my fellow Governors in extending our warmest thanks to the people and Government of Yugoslavia for the kind hospitality shown to us. We are delighted that these meetings bring us into further contact with the people and culture of Yugoslavia.

I must also thank Chairman Muldoon for his enlightening speech reviewing the tangible progress already made by the IMF and the World Bank Group and reminding us of the magnitude of the tasks to be accomplished.

The year since we last met has been marked by important accomplishments in the field of international economic cooperation: the successful conclusion of the Tokyo Round, the close consultation among leading industrial countries, and the UNCTAD V, where some progress was made toward a convergence of views on several issues of interest to both developing and developed countries. The Fund and the World Bank have made important additions to the stock of means available to them, and therefore strengthened their ability to assist members in solving their payments and development problems.

Yet recent and prospective economic developments are a cause for serious concern. Unemployment continues unabated in many countries, and the high rates of inflation seem in some cases to accelerate. We are already witnessing some slowing down of the rate of economic growth in the industrial countries and forecasts for the near future are still more disquieting. The rate of growth of non-oil developing countries has shown a relatively better performance. This however has been possible only at the cost of higher rates of inflation and increasing external debt.

One positive development in 1979 is the better distribution of external surpluses among the large industrial countries. But the current account imbalance between these countries and the developing countries

is expected to widen further, owing to insufficient growth in world trade, rising protectionism, and declining terms of trade.

In Portugal, like in many other countries, this adverse international climate added to the difficulties of domestic origin. Following the stabilization program adopted since last year, GDP growth is expected to slow down from 3.2 per cent in 1978 to 2.5 per cent in 1979. Because of weak domestic demand prospects and tight credit conditions, fixed investment was almost stagnant. The sluggish rate of activity in 1979 made impossible any progress in the employment situation and the prospects for inflation appear worse than in 1978. Real wages may decline for the third consecutive year.

On the bright side, the contribution of the foreign balance to economic growth remains at a high level. In 1978 Portugal entered into a stand-by arrangement with the Fund and the measures taken on the lines of that arrangement to achieve a better payments position have led to the desired results. The current deficit was reduced by more than 50 per cent in 1978, and the overall balance of payments showed a surplus for the first time in several years. The improvement of the external position continued in 1979 and the deficit on current account will fall below the \$500 million level, representing only 2 per cent of GDP. At the same time, due to the surplus on the overall balance and the increase in the price of gold, our reserves are now 1.5 per cent higher than our total external debt and cover about 18 months of imports. This was possible without Portugal's having introduced any payments restrictions. Merchandise exports in volume went up by 13 per cent, while imports stagnated. Following that remarkable performance, exports in 1979 are expected to proceed at a brisk pace given the good competitive position of Portuguese goods brought about by the crawling escudo devaluation. However, a negative element conditioning the growth of Portuguese trade is the existence of quotas on some of my country's most important exports.

The growing wave of protectionism is one of the main causes of concern in present days. This is mainly the case in sectors particularly sensitive to the developing countries, such as textiles, footwear, shipbuilding. It is, thus, very necessary that the industrial countries endeavor to maintain a liberal attitude toward world trade. There is no justification for the new barriers that have been imposed in recent years by several industrial countries on imports of manufactures from developing countries. The obligations of liberalization of payments for current transactions, as provided by the Articles of Agreement of the Fund, will lose much of their meaning if countries impose restrictions on trade transactions. Industrial countries should allow that those changes entail the structural adjustments in their economies which are made necessary by the emergence of new producers in good competitive positions.

I should now like to refer to the activities of the Fund and the Bank and express our views on them. Since the last Annual Meeting,

the Fund took some important steps to improve the conditionality attaching to the use of its resources, the compensatory financing was liberalized, several measures were taken to promote the role of the SDR in the international monetary system, and the Fund's liquidity was increased.

We welcome the recent adoption by the Fund of the revised directives on conditionality. Conditionality is a necessary aspect of the Fund's operations, but it has excessively restricted the recourse by members to the Fund's resources in the upper credit tranches. The new guidelines, as we see them, represent some progress in the demarcation of the area of application of conditionality and allow for greater flexibility of policies in the process of adjustment. It is to be hoped that in the future the design and content of the stabilization programs in stand-by arrangements will correspond to the spirit of the new guidelines and thus encourage the timely recourse to the Fund facilities.

Adjustment programs aimed at stabilization have often generated low growth rates, unemployment, and significant social costs. Now this does not seem to correspond to the aims of the Fund, which are the correction of maladjustments without resorting to measures destructive of both international and national prosperity. Specifically, the Fund should be sensitive to the needs of its members which have to make strong efforts of adjustment, adapt its financial assistance to each particular set of situations, and make a distinction between internal and external factors influencing the imbalances.

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The recent liberalization of the compensatory financing facility offers new possibilities of access to it by member countries with balance of payments difficulties arising from temporary export shortfalls. The Fund should further explore the possibility of improving the conditions of the facility, namely, along the lines proposed in the Arusha program. We would also welcome an early consideration and successful decision on the possibilities for the Fund to provide additional balance of payments support in order to cope with the increase in the price of foodstuffs in the low-income countries.

We want to join other speakers who have expressed satisfaction at the entry into force of the supplementary financing facility and appreciation of those member countries willing to contribute to it. In this connection we should like to support the proposals submitted to the Fund for the establishment of an interest subsidy account in favor of the less developed member countries who may use this facility. The financing of the account could draw its inspiration from the action taken in the case of the oil facility.

With the new resources provided by the supplementary facility and the 50 per cent increase in quotas within the Seventh General Review, the liquidity available to the Fund will be more adequate to its task.

Before closing these few considerations of the Fund's activities, I should like to refer to SDR developments and the proposed substitution account. We are in agreement with those many member countries who claim that the amounts of SDR allocations should be more in line with the objectives defined for this asset. The share of SDRs in total international reserves has been too low for too long, if we take into account those objectives, and the amounts of the allocations for the current basic period do not represent a great progress in that direction.

The measures taken this year by the Executive Directors to improve the financial qualities of the SDR and to widen its usability, namely, in the settlement of financial obligations, in loans, and as collateral, represent an important step to enhance the role of the asset. The role of the SDR would also be enhanced by the establishment of a substitution account.

We support the creation of this account. In our view, the substitutions should be entirely voluntary. Consequently, we hope that the conclusions of the further studies to be carried out will be that the SDR assets of the substitution account should have a yield closer to the market rate and offer an adequate liquidity.

International monetary cooperation should be reinforced by new steps that are both courageous and careful.

The new authority of the Fund as supervisor and coordinator of economic policies of its member countries and the efforts within the European Economic Community to strengthen monetary cooperation among its members offer the best possibilities of an orderly operation of the international monetary system and of greater balance in the economic relations of the world.

I will now turn to the problems that fall in the domain of the World Bank Group.

First, I would like to stress the important role played by the three institutions in their attack on the problems of development, about which the published World Development Reports give a very clear picture. I am quite pleased to take this opportunity to congratulate the management of the Bank for the remarkable quality of these reports. The Group's contribution to the solution of the problems of development covers now all the areas involved. In the activity of these organizations an increased attention is being devoted to projects of a social nature such as those in the fields of rural development, basic sanitation, education, and urban development. This significant change in the lending policy of the Bank and the Association, the most recent development of which is the decision to have separate projects for health, is essentially due to the persevering efforts of the President of the institutions, which we fully support as a way to meet the specific needs of each country and different cultural and social patterns.

To be able to enlarge its assistance to developing countries, the World Bank Group needs to have available a volume of funds greatly in excess of those coming from the reimbursement of loans granted and from its own borrowing, which in turn is limited by the total amount of the capital of the two institutions that can have access to borrowed funds--the Bank and the Corporation. That is why it is important for the IBRD to have a substantial capital increase. I am happy to inform you that, on behalf of the Republic of Portugal, I have just conveyed my vote in favor of the two resolutions submitted by the Executive Directors of the Bank to the Governors concerning the capital increase.

The activity of IDA in favor of the less developed countries is hopefully also to be expanded in the coming years, thanks to the replenishment of its funds now in its final stage of discussion among the prospective participants. It is a privilege for me to announce that my Government has just decided to submit to the Parliament, in due course, the necessary legislation authorizing Portugal to become a member of the Association and to contribute--although with a modest amount--to the replenishment under consideration.

In this way, the Portuguese authorities wish to respond to the call the World Bank Group has been addressing to the middle-income member countries to participate, according to their possibilities, in the international effort of assistance to the least developed nations. It supplements the assistance Portugal has been extending directly to some low-income countries to which we are closely linked.

The improvement of the role to be played by the World Bank institutions requires not only the provision of increasing financial means by their member countries. It also involves a constant amelioration of the ways through which the resources they use are put at the disposal of the borrowers. In this context it is worthwhile mentioning the decision taken during the past fiscal year to adopt a currency pooling system designed to put the borrowers in the same position as to foreign exchange rate variations associated with the funds received from the Group.

A development in the Bank's activity in recent years that should be stressed is the expansion of cofinancing. This is allowing the organization to extend its action to a larger number of projects with the same application of funds. Cofinancing has the additional advantage of facilitating the access of borrowers to the international capital markets. The policy to increase cofinancing is, therefore, to be welcomed.

The continued improvements in the functioning of these institutions are certainly to be praised. They may have to face, however, in the near future, new problems, arising from the need to adapt their activities to a changing world in which economic crisis is part of a deep

cultural and social change, and the building of a new economic order represents the only chance for more wealth, development, and justice.

As the Governor for a country undergoing profound economic and social changes, the pace of which largely depends on the international environment, I put much hope in the success of the World Bank Group and the IMF in meeting their challenges.

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