

Appropriate structural policies contribute to the effectiveness of sound macroeconomic policies. Structural policies that increase the flexibility and dynamism of the supply side of economies limit the persistence of macroeconomic imbalances and accelerate the response to macroeconomic policy adjustments. Such policies also enhance the longer-term potential of economies to grow and create secure, high-paying jobs.

The most effective route to greater exchange market stability lies in the pursuit of sound domestic monetary and fiscal policies. Further progress in achieving a non-inflationary environment and reducing inflation differentials will mitigate one important source of exchange rate variability. Further substantial progress in reducing fiscal deficits and increasing national savings will also contribute to greater exchange market stability. Early policy action to avoid large external imbalances would help reduce the likelihood of large and potentially destabilizing exchange rate adjustments.

In addition, continued cooperation in the exchange markets can be a useful and effective means for moderating exchange rate movements that are not driven by fundamental changes in economic conditions or policies. Close monitoring and coordinated responses in the exchange markets can be appropriate when exchange rates get out of line. In this context, it should be noted that, in their April 25 Statement, the G-7 Finance Ministers and Central Bank Governors agreed that recent exchange rate movements had "gone beyond the levels justified by underlying economic conditions in the majors countries. They also agreed that orderly reversal of those movements is desirable, would provide a better basis for a continued expansion of international trade and investment, and would contribute to our common objectives of sustained non-inflationary growth. They further agreed to strengthen their efforts in reducing internal and external imbalances and to continue to cooperate closely in exchange markets."

Administrative measures, such as selective taxes or controls on capital transactions, are an ineffective and very costly means to attempt to limit exchange market volatility. Since it would be impractical to implement such controls across geographic areas and financial instruments, they would merely shift the location of activity or the financial vehicle for the transactions. Controls would also tend to hamper investment and capital flows that are productive for growth and reinforce stability.