

ACHIEVING DURABLE GROWTH

Macroeconomic Balance

7. - Ministers reaffirmed that low inflation is an essential component of a stable economic environment leading to higher growth and employment.

8. Ministers agreed that monetary policy is critical. They acknowledged the fact that in the early stages of past recoveries monetary growth had often been unwisely stimulative and resolved to avoid this. While each country will follow methods of monetary control appropriate to its circumstances, policies should be consistent with the medium-term objectives of greater price stability and sustainable real growth. Particular focus on stable and moderate growth in monetary aggregates is appropriate, and some Member countries find a nominal income framework helpful in this respect. Some Member countries will properly place greater weight on other indicators, such as the exchange rate.

9. Ministers recognised that large budget deficits can leave a legacy of high public debt, high interest rates and reduced capital formation in the private sector. A rising burden of debt interest adds to the problem. In the few countries in which government borrowing has been brought sufficiently under control, and fiscal positions are sound, scope may be found to lower the general level of taxation. In many countries, including major economies, deficits are projected to remain high despite recovery; governments intend to reduce these by lowering the share of spending in national income and enhancing revenues to the extent that spending cannot be lowered. Adjustment of fiscal policies in this way would contribute to a more balanced and therefore enduring recovery. In general, governments' claims on national savings should leave sufficient room for private investment and for the flow of savings from the developed to the developing world.

10. Government spending should be controlled within nationally chosen medium-term limits on the share of total resources it takes up. Within those limits spending should emphasize programmes and investments which promote flexibility. In many Member countries reform needs to bring slower growth of spending on social expenditure programmes without depriving those in greatest need. Simplicity, stability and the right incentives in tax structures are important for private decision-making.

11. Ministers agreed that wide swings in exchange rates in recent years point to the desirability of trying to make the present exchange-rate regime work better. The main contribution governments can make is to pursue monetary and fiscal policies that are sound and sustainable in themselves and which promote convergence in economic policies. Authorities should stand ready to intervene in disorderly exchange markets.

12. Ministers considered that energy policy remains an important element in economic performance. The principal need is to maintain the momentum already achieved in more rational use of energy and diversification of supply, as well as continued readiness to handle potential interruptions in oil supplies.