- adopt and maintain competitive exchange rates
- encourage savings and productive investment
- institute sound budgetary controls in order to reduce deficits
- make their economies more market-responsive
- improve their export performance
- encourage private capital inflows
- exercise restraint in the use of subsidies
- divest inefficient state enterprises

They must also introduce measures to discourage capital flight, which reached massive proportions in a number of middle-income countries, notably Argentina, Mexico, Venezuela, Philippines and Nigeria. Such outflows of capital have in many cases considerably worsened the debt burden for these countries.

It is necessary, however, for the creditor governments and the international financial institutions to recognize that adjustment policies undertaken by debtor countries will take effect only slowly and gradually. In the interval, indebted countries that have committed themselves to serious adjustment programs must be sustained in their commitment with investment capital.

The International Financial Institutions

When the Mexican debt crisis erupted in 1982, the International Monetary Fund (IMF) took the lead in co-ordinating the management of that problem, which rapidly engulfed a host of other developing countries that were similarly over-extended. While the austerity programs called for by the IMF are viewed by some indebted countries as being responsible for a decline in their living standards, the international community can consider itself fortunate that the IMF assumed the lead role in handling this problem. The Fund must continue to play a key role. The IMF's participation remains central to the effective management of the Third World debt problem, both by gaining the support of creditors for debt rescheduling and new money and by elaborating economic programs to assist debtor countries to reduce their imbalances and rebuild their creditworthiness.

However, by 1985 the IMF's capacity to lend was becoming severely constrained. Its approach was seen as too short-term to permit adaptation of the structural deficiencies in the economies of the indebted developing countries. The World Bank has since been asked to take a lead in promoting structural adjustment in debtor countries.

The new role thrust on the World Bank will face its management with problems and pressures, to which it will have to respond carefully: