

Inflation has been restrained. Unemployment rates have fallen markedly in North America, in Japan and in the United Kingdom, for example, although they remain high in some other countries.

The present economic situation may not be ideal. However, there is no doubt that this sustained non-inflationary economic growth creates a helpful climate for those developing countries now taking painful and courageous steps to reform their domestic economic policies. Economic growth and low inflation in OECD countries will help us to maintain a substantial and increased flow of external resources to developing countries. This flow is the key to their growth and development, without which our own growth will ultimately be hindered.

Yet if the short-term outlook is positive, we have less cause for optimism in other areas. The current growth environment is fragile mainly because of the uncertainty of the medium term outlook. So long as enormous trade and fiscal imbalances persist, they will be a potentially destabilizing factor for international securities and exchange markets. Volatility in these markets could in turn undermine the strategy to manage and ease the situation of the heavily-indebted developing countries, and rebound to damage our own prospects.

Under the Baker Plan important progress on debt has been made. Potential financial crises have been averted. The risk to the world financial system has been reduced as banks have taken steps to reinforce their financial position. Many of the most heavily indebted countries have undertaken major adjustment measures, a key step in strengthening their economies and returning to credit-worthiness.

If this successful approach is to continue, however, we must ensure that the World Bank and International Monetary Fund have resources adequate to their central role. The expansion of the IMF Structural Adjustment Facility last December was a very important step. Equally, speedy approval and subscription by all governments to the General Capital Increase for the World Bank is an essential element.

The widening of the "menu of options" for debtor countries and their commercial creditors must also be encouraged. We should not stand in the way of the