Capital Account Liberalization and the Role of the IMF

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1. The temptation to devote this talk to this week's amazing worldwide stock and currency market turbulence is almost irresistible. Rather than succumb to temptation, let me briefly state how we see the role of the Fund in the present crisis. In South-East Asia we continue in the closest touch with our program countries, Philippines and Thailand. We have a review mission in Thailand at present. Our negotiations with Indonesia are progressing well and we are closing in on an agreement. We are in touch with other Asian member countries, discussing ongoing events and their policy responses. We are similarly in touch with countries in Latin America and the transition economies that are being affected by market turmoil. We stand ready to do our duty, which is to help stabilize economies that may need financial assistance, provided they are willing to undertake appropriately ambitious economic reform and adjustment programs. As we have shown in South-East Asia, we are able under the new Emergency Financing Mechanism to move rapidly and on a significant scale to provide assistance to countries willing to undertake the necessary policy measures. We are in a position to do that for others of our members that may need assistance.

2. Now let me turn to the planned subject of this talk, capital account liberalization and the role of the IMF. Last month, in Hong Kong, before the stock market collapse, the Board of Governors of the IMF gave our Executive Board the mandate to complete its work on an amendment of the Articles of Agreement to promote capital account liberalization. In addition, agreement was reached on a 45 percent increase -- amounting to a total of $90 billion -- in IMF quotas, and a special issue of SDRs.

3. Coming a little over fifty years after the original Articles of Agreement put current account convertibility and trade liberalization at the center of the Fund's mandate, and at a time when the globalization of capital markets has never been more obvious, the capital account amendment and the increase in resources would enable the Fund to play its full part in promoting the orderly liberalization of international capital markets. But the recent turmoil in currency and financial markets forcefully raises the question of the risks of capital account liberalization.

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4. The question is whether the ongoing market turbulence -- the attacks on Asian currencies and the contagion effects that have been evident in Asia and the rest of the world in 1997, just as they were in Latin America in 1995, and perhaps also in Europe in 1993 -- does not suggest that the capital account is more often the source of economic difficulties and risk rather than benefit, and therefore that capital account liberalization should be put off as long as possible.

5. What I would like to do today is to persuade those of you who remain sceptical about capital account liberalization of three things:

- that the benefits of liberalizing the capital account outweigh the potential costs;
- that countries need to prepare well for capital account liberalization: macroeconomic policies and institutions, particularly the financial system, need to be adapted to operate in a world of liberalized capital markets; and
- that an amendment of the Fund's Articles of Agreement is the best way of ensuring that capital account liberalization is carried out in an orderly, non-disruptive way, that minimizes the risks that premature liberalization could pose for an economy and its policymakers.

In making this argument, I will also touch on several critical issues about international capital movements that recent crises have put on the policy agenda. I must though apologize in advance for raising more questions than I can answer.

I. The Growth of Capital Movements

6. First, some background facts and forecasts: Both gross and net international capital flows have increased markedly in recent years, and for many countries capital movements have been a critical factor in the balance of payments. Average annual net capital inflows to developing countries exceeded US$150 billion in 1990–96. After a pause in the first half of 1995 following the Mexican crisis, the pace of inflows to developing countries recovered, and continued to increase in the first half of 1997. A net total of more than US $200 billion in foreign capital flowed to developing countries in 1996, and this rate of flow appears to have been sustained in the first half of 1997. This is not a small amount: it is nearly 0.8 percent of world GDP, and well above 2 percent of developing country GDP.

7. The countries of Latin America and Asia have benefited substantially from recent capital inflows. Net capital inflows to the Western Hemisphere countries exceeded US$60 billion per annum in 1993–96, and amounted to some US$45 billion in the first half of 1997. Net inflows to Asian countries have averaged in excess of US$60 billion annually in 1990-96 and exceeded US$100 billion in 1996.

8. International capital flows have by no means reached their peak. Portfolios in the advanced countries are still insufficiently diversified internationally; and the residents of developing countries likewise have much to gain from investing in capital markets in other countries. We can be sure that the volume of gross international capital flows will continue to increase, as information about the potential of developing country markets spreads, as transaction costs continue to decline, and as the liberalization and sophistication of capital markets in developing and advanced countries continues to grow.

II. Benefits and Risks of Capital Account Liberalization

9. There are two arguments in favor of capital account liberalization. The first is that it is an inevitable step on the path of development, which cannot be avoided and therefore should be adapted to. In support of this view, we may note that all the most advanced economies have open capital accounts. This is a powerful argument, and a correct one, even if it begs the question of how rapidly the inevitable has to be accepted. But while sufficient, it is not as satisfactory as the second argument, that on balance the benefits of capital account liberalization outweigh its costs.

10. Put abstractly, free capital movements facilitate a more efficient global allocation of savings, and help channel resources into their most productive uses, thus increasing economic growth and welfare. From the individual country's perspective, the benefits take the form of increases in both the potential pool of investable funds, and the access of domestic residents to foreign capital markets. From the viewpoint of the international economy, open capital accounts support the multilateral trading system by broadening the channels through which developed and developing countries alike can finance trade and investment and attain higher levels of income. International capital flows have expanded the opportunities for portfolio diversification, and thereby provided investors with a potential to achieve higher risk-adjusted rates of returns. And just as current account liberalization promotes growth by increasing access to sophisticated technology, and export competition has improved domestic technology, so capital account liberalization can increase the efficiency of the domestic financial system.

11. Abstract as these arguments may sound, they have concrete counterparts in the real world. Access to global savings means in part foreign direct investment, about the benefits of which there is no longer any serious controversy. Governments all over the world borrow in the Euro-markets, gaining access to cheaper financing than they might be able to obtain domestically. Domestic corporations likewise can obtain cheaper and more sophisticated financing by borrowing abroad. The new financial technologies that accompany the entry of foreign participants in domestic markets can upgrade the entire financial system. Residents of countries that permit portfolio investment abroad can hold more diversified, less risky portfolios. These are not abstract concepts, but benefits that every country represented in this room has enjoyed as a result of its access to the international capital markets.

12. Still, what about the risks? International capital flows tend to be highly sensitive to the conduct of macroeconomic policies, the perceived soundness of the domestic banking system, and unforeseen economic and political developments. Accordingly, market forces should be expected to exert a disciplining influence on countries' macroeconomic policies. Normally, when the market's judgment is right, this discipline is a valuable one, which improves overall economic performance by rewarding good policies and penalizing bad. Of course, policymakers do not always welcome discipline of which they are the object, even if it is appropriate; nor are they likely to admit when trouble comes that the capital markets were only the messenger, delivering a verdict on their performance. Rather they may be tempted to shoot the messenger.

13. However markets are not always right. Sometimes inflows are excessive, and sometimes they may be sustained too long. Markets tend to react late; but then they tend to react fast, and sometimes excessively. Of most concern, market overreactions sometimes take the form of contagion effects, spillovers from a crisis in one market to other, related, markets. Some spillovers are entirely rational and efficient -- for instance, when a country devalues, the equilibrium exchange rate for its competitors may also depreciate. But sometimes, including to some extent in the ongoing East Asian crisis and its aftermath, and certainly in the attack on Argentina in 1995, contagion effects seem to be overreactions, perhaps based on incomplete information, perhaps a result of herd behavior, perhaps based on an inaccurate appraisal of the underlying economic situation. Contagion effects are all the more worrying in light of the possibility that attacks become self-fulfilling prophecies, for instance because the banking system weakens in the face of an attack that forces a devaluation and higher interest rates.[2]

III. Managing a Liberalized System.

14. What is the right response to operating in a system that offers major benefits, but that may penalize mistakes severely, and occasionally burden the economy with inappropriate shocks? The prime need obviously is to avoid policies that can cause rapid capital flow reversals, and to strengthen the structure of the economy and its policy framework so as minimize its vulnerability to sudden changes in market sentiment. Some of what needs to be done is well known and uncontroversial, in particular:

- to pursue sound macroeconomic policies;
- to strengthen the domestic financial system; and
- to phase capital account liberalization appropriately -- which means retaining some capital controls in the transition.

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[2] These are cases of so-called multiple equilibria.

There are also more controversial questions about:

- the provision of information to the markets;
- the role of surveillance; and
- the potential need for financing.

Let me take these topics up in turn, touching lightly on those elements on which there is a well-understood consensus, emphasizing rather the more novel or controversial points.

A. The macroeconomic policy framework

15. A sound macroeconomic policy framework is one that promotes growth by keeping inflation low, the budget deficit small, and the current account sustainable. As a formal matter of debt dynamics, the sustainability of the current account depends on the economy's growth rate and the real interest rate at which the country can borrow. But sustainability has another sense, of the ability to withstand shocks, and that is less susceptible to formal analysis. In any case, large current account deficits -- depending on the growth rate of the economy, in the range of 5-8 percent of GDP, and certainly any higher -- should be cause for concern. In many country situations, a much lower current account deficit perhaps in the range of 2-3 percent of GDP can contribute to economic vulnerability, depending on the country's growth rate and economic structure, its sources of external financing and other factors. Current account deficits financed by longer-term borrowing and in particular by foreign direct investment are more sustainable; sizable deficits financed in large part by short-term capital flows are a cause for alarm. Large external debts, particularly short-term, and unhedged, foreign currency liabilities, likewise are major sources of weakness.

16. It is sometimes difficult to deal with short-term capital inflows that are a response to high domestic interest rates, particularly in a context in which policy limits exchange rate flexibility. This is the famous capital inflows problem that so many countries seeking to stabilize from moderate rates of inflation have faced. There is no easy answer to this problem, but a tightening of fiscal policy is the first line of defense. A second response is to increase the flexibility of the exchange rate.

17. How flexible should exchange rates be? Recent experience has reopened the question of whether any form of fixed exchange rate system is consistent with free capital mobility. The G-7 countries, except for those intending to join EMU, long ago decided on flexible rates. But freely floating rates, even among the major currencies, have moved excessively, and no developing country seeking growth through integration into the world economy would want to live with such fluctuations. The exchange rate regimes of Western Hemisphere countries vary, from the currency board in Argentina at one end of the spectrum to a floating rate in

Mexico at the other, with a number of intermediate cases as well. There is no single exchange rate regime that is right for all countries at all times. East Asian countries, as well as Argentina, were well served by exchange rate systems that either fixed the rate or limited its flexibility. Nonetheless, those countries that allowed the rate to float when threatened by an imminent speculative attack made the right choice. In the case of Hong Kong, the currency board is so central to economic stability that the authorities are right to defend the rate and the system. Whether the rate is fixed or floating, the interest rate has to be used actively to defend the currency when it is under attack.

18. As more normal conditions return in the countries that have recently moved away from pegged exchange rates, the question of the optimal exchange rate system will be back on the agenda. There is no generally agreed answer to that question. Some conclusions are easy: if the exchange rate is pegged, it is often better to peg to a basket of currencies rather than a single currency, except for cases where a particular large economy is by far the largest partner in trade and finance. Beyond that, it may be that countries will return to some form of exchange rate band, with very wide margins, perhaps -- depending on domestic inflation -- a crawling band. If they do, they should stand ready if circumstances warrant, to move the band. In any case, the level of the exchange rate is bound to be a concern for policymakers, particularly in developing countries relying on export-led growth, and macroeconomic policy needs to be adjusted when the exchange rate (equivalently the balance of payments) shows signs of moving out of desired ranges.

B. Strengthening the financial sector

19. The critical role of the strength of the financial system was becoming clear before the Mexican crisis; it was crystal clear in that crisis and its aftermath; and it has been equally clear in the Thai crisis and its aftermath. The Fund staff's important paper, "Toward a Framework for Financial Stability" provides a detailed analysis of what is required for a healthy banking and financial system.[3] By now, policymakers have a good idea of what needs to be done to strengthen financial systems, by improving supervision and prudential standards, by ensuring that banks meet capital requirements, provision for bad loans, limit connected lending, publish informative financial information, and by ensuring that insolvent institutions are dealt with rapidly. Implementing those changes, particularly in a banking system already in trouble, is frequently difficult, especially where political pressures hamper the supervisory authorities. The task is nonetheless urgent: it cannot be emphasized strongly enough that a healthy banking and financial system is essential for the growth of the economy, and that a weak banking system is both a standing invitation to a macroeconomic crisis and a guarantee of the severity of any such crisis.

[3] David Folkerts-Landau and Carl Lindgren, "Toward a Framework for Financial Stability", IMF, September 1997, with the Core Principles of the Basle Committee included as an annex to the paper.

C. Phasing and the use of controls

20. There are obvious dangers in liberalizing capital movements in an economy in which the macroeconomic framework and the financial sector are weak. There is thus a case for phasing capital account liberalization, paying due regard to the country's macroeconomic situation (including the balance of payments), the stage of development of its financial markets and institutions, and the impact of existing controls. But in this area, as in the case of more familiar structural reforms, there are few hard and fast rules, and some countries -- notably Indonesia -- successfully liberalized the capital account very early in the reform process.

21. The obverse side of the phasing of liberalization is the continued use of capital controls. Let me first offer a general perspective on the use of controls. Controls, except for prudential controls, are generally inefficient and costly for the economy. They are viewed by markets as an additional country risk factor, and their prolonged use has often been associated with capital flight. Countries that have already removed controls are unlikely to reimpose them except perhaps on a limited basis, temporarily, for emergency purposes. Countries that now have non-prudential controls in place will remove them, generally gradually, perhaps in a big bang. Countries that retain some controls may seek to refine them, removing those that cause the greatest distortions, perhaps replacing them with less distortionary controls -- just as tariffs often replace quotas at the start of trade liberalization. Against the background of a general trend of progressive capital account liberalization, we need to consider the controls that are likely to be in place during transitional periods.

22. A theoretical case can be made for countries whose financial systems are not sufficiently robust to restrict selected forms of capital inflow, for instance the short-term inflows that produce the capital inflows problem. A judgment on whether any particular restriction in a particular country is desirable would have to take into account the costs of such restrictions, their effectiveness or lack thereof, the speed with which they will lose effectiveness, as well as their potential benefits if any. Whatever controls might be imposed, they are likely to do less damage if they are market-based, for instance taking the form of reserve requirements on foreign deposits, rather than quantitative. Controls on outflows may have been imposed for balance of payments reasons and retained both for that reason and because they provide a captive source of funds for domestic financial institutions. Their gradual removal is generally desirable.

23. Prudential controls on foreign capital are already in place in many countries, for instance restrictions on the open positions domestic banks can take in foreign currency. Similar restrictions could be contemplated on open positions taken by corporations. Such controls, intended to reduce the vulnerability of domestic institutions to shifts in foreign capital flows, could well form part of internationally accepted prudential standards.

24. Every currency crisis produces demands to do something about hedge funds and speculators. Usually the anger at the speculators would better be aimed closer to home, and in practice nothing much has yet been done to tame them. Still, occasional cases of market

overreaction raise the question of whether better provision of information to and by market participants, as well as improved prudential regulations, could increase the efficiency of the markets. Since speculative positions have counterpart transactions in the domestic economy, we need to ask whether prudential regulation of the domestic economy could reduce the occasional excesses of speculative attacks, perhaps thereby also increasing the efficiency of the international capital markets. We will be undertaking a study of these issues at the IMF over the next several months.

D. Information provision

25. One of the many lessons drawn from the events of 1994/95 was that the extent of the crisis was worsened by the poor quality of information supplied to both the official sector (including the IMF) and the markets. Specifically, information on reserves was provided with a long lag, and information on the structure of the external debt was not readily available. As a result, the IMF's data standards initiative was initiated and the Special Data Dissemination Standard was established in early 1996. Considerable progress has been made with the development of the associated Dissemination Standards Bulletin Board.[4] The Thai crisis reinforces the argument for better and more timely provision of information, including information on central bank forward operations. There are two arguments for the provision of such information. First, better informed markets are likely to make better decisions. In each of the Mexican and Thai crises, this would have meant that the markets would have withdrawn funds sooner than they did, thereby hastening adjustments that needed to be made in each of those cases. Second, the obligation to publish information on certain interventions would affect the extent and nature of those interventions, and help prevent some unwise decisions.

26. There is much work to be done in thinking through the question of the optimal extent and timing of information provision. If the policy game is thought of as a battle between the authorities and hostile markets, then the official penchant for secrecy is easy to understand. If instead, the problem is thought of as one of designing a framework to influence both the choice of policies, and the effectiveness of markets in responding to and disciplining policies, then the case for more information provision is strengthened. As that framework is developed, we will also have to consider the information that market participants need to make public in order to discipline their own actions and increase the efficiency of markets. These issues will surely be on the agenda in the next few years.

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[4] This electronic bulletin board on the Internet (http:\\dsbb.imf.org) provides information concerning countries' economic and financial data systems. By September 1997, there were 43 subscribers, covering several (but not all) of the major economies of Latin America, including Argentina, Chile and Mexico.

E. The role of surveillance

27. Since the Mexican crisis, the IMF has placed increased emphasis on timely surveillance of market developments. It is fair to say that the Fund's new surveillance procedures worked well in the case of Thailand, and reasonable to expect they will work well in future. But it would be a mistake to imagine that the Fund or any other surveillance could ever be made perfect. The Fund will surely miss the warning signs of some future crisis, and just as surely will predict some crises that do not happen. The international system cannot be built on the assumption that improved surveillance, or the increased provision of information to markets, will prevent all future crises, even though they should reduce the frequency of crises. The effectiveness of Fund surveillance is also limited by the fact that a country may be warned but not take action. Because the Fund's ability to conduct its surveillance depends on its privileged access to information, it is not in a position to enlist the markets in the cause of surveillance by making its concerns fully public. That is a limitation that we will have to accept.

F. The need for financing

28. No matter how much information is provided to markets, surveillance is strengthened, prudential regulations are refined, and government policies improve, crises will happen. In a crisis, private sector financing evaporates, and countries are forced to take painful adjustment measures. One of the purposes of the IMF set out in the first Article of Agreement is "To give confidence to members by making the general resources of the Fund temporarily available to them under appropriate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity". The Fund -- that is the international community -- has shown its willingness to act in this way in many crises. The Fund will continue to act in accordance with its purposes, and to provide financing, with the conditionality that provides the safeguards referred to in Article I (v), to countries faced with the need to take actions to stem the destructive effects of an external crisis.

29. The Mexican and Thai crises, and the proposed capital account amendment of the Articles of Agreement have raised two important interrelated questions about Fund lending: first, whether the increased scale of international capital flows requires a reexamination of the criteria that determine the size of Fund loans; second, whether the Fund's willingness to lend in such circumstances creates a moral hazard. The answer to both questions is yes. As the efficiency of the international capital markets improves, it is reasonable to expect that there will be fewer crises requiring official funding in future, but it is also likely that they will be on a larger scale than typical in the past. In both crises, the Fund was able to provide very large loans relative to the country's quota by invoking the "exceptional circumstances" clause, and such a route will be available in the future. But if capital account liberalization increases the likelihood of larger, even if fewer, crises, it would also be appropriate to review Fund lending

criteria, to ensure that Fund loans -- in some cases together with supporting funding -- will remain adequate to their task.

30. There has been an extraordinary recent focus on the potential moral hazard created by possible Fund lending to mitigate a crisis. It is time to get that issue in perspective. There is no serious case to be made that the availability of Fund financing in emergencies encourages countries to behave recklessly, for Fund conditionality is such that governments in trouble are usually too slow rather than too fast to come to the Fund. There may be some moral hazard on the lending side, in that the private sector may be too willing to lend, because it knows that a country in trouble will go to the Fund rather than default -- or at least that was what could plausibly be said until yesterday. Spreads in some markets have been so low as to support this view -- but then spreads in all risky markets, including those unaffected by the IMF, were very low until yesterday.

31. Even so, the risks of moral hazard are typically exaggerated. When lending is from private sector to private sector, the lender should suffer a loss if the institution to which it lends is closed or forced to restructure, as is the case for some Thai companies. In that case the prevention of moral hazard requires only no bailouts of private sector lenders. The problem is more difficult in the case of lending to the public sector, for there is no accepted bankruptcy procedure for governments. Severe legal complications could follow for any government seeking to impose a moratorium, and no international organization has, or is likely to have, the authority to overrule domestic law by authorizing a moratorium. But even in the case of lending to governments, it may sometimes be possible to persuade the lenders, if they can be identified, to roll over their debts and restructure them.

32. We must continue to seek ways of reducing whatever moral hazard exists as a result of Fund lending. But we should not exaggerate. Until recently, there has been too little private sector lending to developing countries, not too much. And in any concrete case, we must weigh the benefits of Fund lending against its costs, whether in the form of moral hazard or whatever else. I have seen no serious argument that suggests that the Fund should abstain from conditional lending in a crisis in order to reduce the moral hazard that would otherwise appear.

IV. The Role of the Fund and the Capital Account Amendment

33. Finally, let me turn briefly to the proposed amendment to the Articles of Agreement to extend the Fund's jurisdiction to capital movements. Against the background of the increased importance of capital movements for the operation of the international financial system, many countries have been liberalizing the capital account. Such decisions have potentially important effects on the balance of payments and on the demand for Fund resources. De facto, the Fund has become increasingly involved in helping member countries liberalize in a manner that does not undermine economic and financial stability. Yet the only formal jurisdiction the Fund has in this area is the right to require countries to impose capital controls in certain contexts.

34. At the IMF annual meetings in Hong Kong in September 1997, the Fund's Board of Governors endorsed the plan to amend the Fund's Articles of Agreement to make the liberalization of international capital movements a central purpose of the Fund and to extend the Fund's jurisdiction to capital movements. In a nutshell, **the prime goal of the amendment would be to enable the Fund to promote the orderly liberalization of capital movements.**

35. In doing so, it is likely that the Fund will develop the analogies for the capital account of the present Articles VIII and XIV that apply to the current account. When they are ready, members accept the obligation under Article VIII, to refrain from imposing restrictions on the making of payments and transfers for current international transactions. In accepting the obligations of Article VIII, a country provides confidence to the international community that it will not impose restrictions on the making of payments and transfers for current international transactions without Fund approval and will, therefore, pursue policies that will obviate the need for such restrictions. Until a country is ready to accept Article VIII, it may, under Article XIV, maintain and "adapt to changing circumstances" existing restrictions that were in place when it joined the Fund, until its balance of payments position is sufficiently strong that reliance on exchange restrictions is no longer warranted. This framework has allowed the Fund to take account of the different starting positions of its members and has, at the same time, provided a basis for dialogue between the Fund and the member on the appropriateness of its restrictions and the policies and reforms that would be necessary to allow for their elimination.

36. Similarly, in the case of the capital account, we can envisage members eventually accepting the obligation to liberalize the capital account fully -- though what precisely that means will have to be worked out. Until they are ready to do so, they would avail themselves of transitional arrangements that would be approved by the Fund. Members would be able to adapt to changing circumstances the controls in place when the amendment comes into force. New restrictions could be approved to reflect considerations of market and institutional evolution and for prudential reasons. The Fund might also have provision to approve temporarily restrictions needed to address macroeconomic and balance of payments problems. Similarly to the acceptance of Article VIII, a members's acceptance of the new obligations with respect to capital movements would send a clear signal of its intentions to the international financial community, and could serve to strengthen its access to international capital markets.

37. If this framework is adopted, the Fund will have to develop its analysis and evaluation of different types of capital controls, to advise countries on which types of controls are most likely to help them attain their goals, and on optimal methods of liberalization. In doing so, we will need to distinguish: between controls on capital inflows and capital outflows; between general and selective controls; between market-based and quantitative controls; between prudential controls and those imposed for balance of payments or macroeconomic reasons;

and among controls on different types of capital flow -- and no doubt among other categories of controls too.

38. A capital account amendment that provides for a transitional period during which capital controls could remain in place, would make it possible for the Fund to encourage the liberalization of capital flows while paying due regard to the varying circumstances of members. It would facilitate the establishment and application of a universally-applied code of good behavior in the application of capital controls, enabling the Fund to determine when macroeconomic, structural, and balance of payments considerations require adherence to -- or permit exemptions from -- obligations relating to capital account liberalization. This is of particular importance in light of the fact that the Fund may also be called upon to finance the balance of payments problems that are caused by capital movements.. And by giving the Fund jurisdiction in the area of capital movements, it would strengthen the Fund's surveillance role over international capital flows. The extension of Fund jurisdiction would thus complement rather than duplicate existing bilateral, regional, and multilateral agreements and initiatives in this area.

V. Concluding Remarks

39. I hope I have explained why we believe a capital account amendment along these lines, including transitional arrangements, will be in the interests of all Fund members. We all recognize that an international environment of free international capital movements provides enormous opportunities, but also entails significant challenges and risks for countries and the international monetary system. What is happening today reminds us of these risks. But the many benefits countries have derived from capital inflows also remind us that no country can afford to cut itself off from the international capital markets. The increasing importance of international capital flows is a fact, which needs to be better reflected in the laws and agreements that help bring order to the international economy, and to the process by which individual countries liberalize their capital accounts. The proposed amendment to the Articles of Agreement will serve this purpose and our member countries well.