INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

SEVENTEENTH MEETING OF MINISTERS

COMMUNIQUÉ

Washington, D.C.
September 22, 1978

l. The Ministers of the Group of Twenty-Pour on International Monetary Affairs held their seventeenth meeting in Washington, D.C., on September 22, 1978, Mr. A. G. N. Kazi, Governor of the State Bank of Pakistan, was in the chair, with Mr. David Ibarra-Muñoz, Secretary of Finance and Public Credit, México, and Mr. 0.0. Vincent, Governor of the Central Bank of Nigeria, as Vice-Chairmen. The meeting vas attended by Mr. Gamani Corea, Secretary-General, UNCTAD, Mr. A.M. Jaidah, Secretary- General, OPEC, Mr. J. de Larosière, Managing Director, International Monetary Fund, Mr. R. McNamara, President, World Bank, and Mr. Cesar Virata, Chairman, Joint Ministerial Committee of the Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee).

2. The meeting was preceded by the twenty-sixth meeting of the Deputies of the Group of Twenty-Four, with Mr. Ziauddin Ahmad, Pakistan, as Chairman, and Mr. A. Phillips O., México and Mr. G. O. Nwankwo, Nigeria, as Vice-Chairmen.

3. The Ministers expressed their concern over current trends in the world economy. They noted that following the satisfactory rates of expansion in world output and trade in the period of initial recovery from the severe recession of 1974-75, economic activity and world trade have slowed down though modest progress has been achieved in the abatement of inflation. They noted that in most industrial countries unemployment rates in 1978 are similar to those prevailing in the worst phase of recession in 1975, and that the short-term prospects do not suggest a significant improvement. The Ministers expressed concern over the renewed deterioration in the terms of trade of the developing countries and the increase of the current-account deficit of the non-oil developing countries, which in 1978 is estimated to reach 32 billion dollars.

4. The current situation gives rise to concern because the international economy seems to be in danger of stagnating at low rates of growth of out-put and trade, with high rates of unemployment and inflation. This prospect is undesirable, not only because of the substantial under-utilization of resources, but also because it is giving rise to all kinds of protectionism, which make the adjustment process more difficult for developing countries.

5. The Ministers were of the view that a stronger political commitment to achieve higher rates of growth, consistent with the long-term growth potential of industrial nations, was required. They noted that policies pursued by both oil-exporting and non-oil developing countries had made considerable contribution to the adjustment process. They urged that industrial countries in external surplus should increase their domestic activity and capital outflows. They expressed concern at the low level of development assistance which is far below internationally agreed

targets, and underlined the need to expand capital flows, both in the form of official development assistance and through liberalizing access to the capital markets. This will help improve the working of the adjustment process, and bring about faster recovery in the level of world economic activity.

6. They noted the persistence of an undesirable asymmetry in the adjustment process, the burden of which falls mainly on non-reserve-currency deficit countries. They urged the Fund to intensify its surveillance of surplus industrial and reserve-currency countries, in order to achieve a more equitable adjustment. This would also reduce the instability in the exchange rates of major currencies, which has given rise to considerable uncertainty and has had adverse effects on the rate of investment and economic activity.

7. The Ministers reiterated the need for a new allocation of SDRs in order to meet the global needs for international reserves, to increase net reserves of the system and also to contribute toward making SDRs the principal reserve asset in the international monetary system. In this connection, they support the proposal made by the Managing Director of the IMF for a new allocation of 4 to 6 billion SDRs per year over a three-year period.

8. The Ministers favored measures to increase the attractiveness of the SDR as a reserve asset. In this context, they favored the abrogation of the reconstitution obligation; they supported increasing the interest rate on the SDR to 80 percent of the weighted market rate; and they were prepared to support the remuneration rate at 90 percent of the SDR interest rate, provided no increase in Fund charges would result. They emphasized that such an increase in the SDR interest rate would be acceptable and meaningful only if a new allocation of SDRs were decided upon. They favored expanding the uses of SDRs to include three additional ones, namely: operations related to settlement of obligations, making of loans, and security for obligations. Other uses of SDRs should be further studied.

9. The Ministers considered the question of the Seventh General Review of Quotas and favored an increase of at least 50 percent. In regard to the method of payment, the Ministers were of the view that member countries should be given the option to pay their subscription wholly in their own currency.

10. Although the Ministers did not accept the view that the issue of a new allocation of SDRs be linked with the Seventh General Review of Quotas, in case it was decided to link them, and 25 percent of the subscription was to be in SDRs, the size of the new SDR allocation should be such as not to require a drawdown in members' SDR balances.

11. The Ministers expressed the need for the supplementary financing facility as approved by the IMF Executive Board to be made operational as early as possible and for a subsidy account to be established for the charges that would be payable by low-income countries.

12. Regarding conditionality in the use of Fund resources, the Ministers expressed concern at the multiplicity of performance criteria and some other forms of conditionality that inhibit access to Fund resources by member countries. Hence, they urged the Executive Board of the IMF to set appropriate guidelines and establish other institutional procedures related to the use of Fund

resources, especially in the upper credit tranches, in support of economic adjustment programs. In this context, they were of the view that the guidelines should be designed so as to limit the performance criteria only to relevant macro-economic variables, paying due regard to the growth considerations of member countries, and their prevailing economic and social situations

13. The Ministers welcomed the initiative of the World Bank in preparing the World Development Report, 1978 which provides an analysis of some of the fundamental problems confronting the developing countries. They were concerned that the projections contained in the report provided for insufficient acceleration of the growth rate of the low-income developing countries, which would leave the problem of absolute poverty practically untouched. The prospects for middle-income countries which also have substantial segments of population living in conditions of absolute poverty are also unfavorable, due to the slowdown in the growth of world economic activity and trade and increasing restrictive practices in the trade and financial spheres.

14. The Ministers regarded the recommendations contained in the report as insufficient to remedy the urgent problems faced by developing countries. They therefore urged the international community to make a more determined effort towards the adoption of the main measures leading to the establish-ment of the New International Economic Order. In particular, in order to achieve higher levels of transfer of real resources, they recommended:

(a) a substantial increase in the level of official development assistance;

(b) a substantial increase of the capital of the World Bank before the first quarter of next year and a simplification of its lending procedures, and an increase in the capital of the regional development finance institutions;

(c) early completion of contributions to IDA's fifth replenishment and timely conclusion of negotiations for the sixth replenish-ment, which should provide for an increase in real terms;

(d) an increase in the flow of capital on commercial terms at longer maturities suitable for development financing.

15. As part of the efforts to stabilize the current account receipts of developing countries, the Ministers emphasized the need to strengthen the compensatory financing facility by adopting the following measures:

(a) The limit on outstanding drawings under the Facility should be increased from 75 percent to 100 percent of a member's quotas drawings in any twelve-month period should be increased from 50 percent to 100 percent;

(b) The repayment period should be lengthened from the present 3-5 years to one of 5-7 years;

(c) Countries should be given the choice of basing the calculation of their shortfalls on their total receipts from merchandise exports or the combined receipts from merchandise exports and services;

(d) In the calculation of shortfalls, account should be taken of the increase in the price of imports;

(e) Increased import volume resulting from climatic or other factors beyond the control of the country concerned should also be taken into account in calculating the shortfalls;

(f) Drawings under the facility should not be subject to any credit tranche conditionality.

16. Furthermore, the Ministers recommended the establishment of the common fund of the integrated commodity program, an expansion in program lending by the World Bank, and a further examination of the feasibility of a new stabilization facility of the type of STABEX.

17. The Ministers reviewed the work of the Development Committee and concluded that it represents an appropriate forum in which issues in regard to the transfer of resources to developing countries could be dealt with. They agreed that the Development Committee should continue with the present joint composition, thus allowing it to consider issues which fall under the jurisdiction of the Fund or the Bank, or beyond them.