

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

EIGHTEENTH MEETING OF MINISTERS

COMMUNIQUÉ

Washington, D.C.
March 6, 1979

1. The Ministers of the Group of Twenty-Four on International Monetary Affairs held their eighteenth meeting in Washington, D.C., on March 6, 1979. Mr. David Ibarra-Nuñez, Secretary of Finance and Public Credit of Mexico, was in the chair, with Mr. O. O. Vincent, Governor of the Central Bank of Nigeria, as Vice-Chairman. The meeting was attended by Mr. Gamani Corea, UNCTAD, Mr. J. de Larosière, Managing Director, International Monetary Fund, Mr. Cyrus Sassanpour, OPEC, Mr. Ernest Stern, International Bank for Reconstruction and Development (World Bank).

2. The meeting was preceded by the twenty-seventh meeting of the Deputies of the Group of Twenty-Four, with Mr. Alfredo Phillips O., Mexico, as Chairman, and Mr. E. A. Ajayi, Nigeria, as Vice-Chairman.

3. The Ministers of the Group of Twenty-Four reviewed the international economic situation and expressed their concern over the persistence of low rate of growth and substantial underutilized capacity in a number of industrial countries in 1978. The prospects for 1979 appeared to be no better, and there existed the disquieting possibility of a further deterioration in world economic activity. They noted that, notwithstanding the sluggish rate of growth, no significant progress was made in the industrial countries with respect to inflation, and that their unemployment rates during 1978 were, on average, significantly higher than in the recession year of 1975.

4. The Ministers regarded the economic outlook as unfavorable for the developing countries, not only because of its adverse effect upon world trade, but also because it was likely to intensify the protectionist trends in the industrial countries. This could frustrate the efforts of the developing countries to improve their growth as well as their external payment performance.

5. The Ministers expressed dismay at the proliferation of trade restrictions in the developed countries. They urged them to adopt more liberal trade policies as a fundamental step towards an improved functioning of the international adjustment process. In this connection, they also expressed their dissatisfaction at the lack of progress in the implementation of the Tokyo Declaration regarding preferential treatment for developing countries, and noted that a special review will be made of this issue during UNCTAD-5, and hoped that it would lead to effective trade liberalization in favor of the developing countries within the framework of the GATT.

6. The Ministers expressed serious concern at the substantial deficit of the current account of the non-oil developing countries in 1978, and the prospects for a further deterioration to US\$38 billion in 1979. That undesirable trend, they considered, had been occasioned mainly by a

substantial deterioration in the terms of trade of developing countries, which were expected to worsen in 1979; the slow growth of trade; and the intensification of protectionist measures in industrial countries during 1978. The Ministers regretted that the international fora had so far failed to deal adequately with these problems.

7. The Ministers emphasized that the policies adopted by the developing countries had contributed to the sustenance of economic activity in the industrial countries, through their expanded imports, associated with the development effort. They also noted the contribution made by the oil exporting developing countries to the adjustment process, as reflected by the marked decline in their external surplus from \$33 billion in 1977 to \$9 billion in 1978; despite this reduction in their surplus, they maintained their levels of assistance to other less developed countries. Ministers were of the opinion that the significant economic potential of the developing countries could play a major role in the adjustment process at higher levels of world trade and economic activity if a favorable climate is created for their exports and if greater flows of capital were available on suitable terms.

8. The Ministers noted with concern the decline in the net inflow of private long-term capital envisaged for 1979. The development process will suffer a setback if official long-term capital and aid to all developing countries do not increase sufficiently to offset such a decline. In this context, Ministers stressed the need for providing larger resources to the multilateral financial institutions, through a substantial increase in their capital. They expressed the hope that current negotiations for the replenishment of IDA VI would result in a substantial increase of IDA resources in real terms. They strongly supported the doubling of World Bank capital and stressed the need for at least maintaining the voting rights of developing countries as well as their representation on the Board. In this connection, they supported strongly the proposal for the creation of a medium-term facility for balance-of-payment support over a period of 5 to 10 years. They also took note of the decision of the Ministers of the Group of 77, adopted at the last meeting held in Arusha, Tanzania, regarding the establishment of a long-term facility for financing purchases of capital goods by developing countries that would also help to stimulate the capital-goods-producing sectors of industrialized countries, as well with respect to the link between SDR allocation and development assistance. The two financing facilities would need to have provisions for interest subsidies for the poorest of the developing countries. They also agreed on the need to review the various financing facilities proposed, in the light of the existing mechanisms for balance-of-payment and development finance. They also urged donor countries to increase the flow of ODA to reach the United Nations target of 0.7 percent of GNP.

9. The Ministers received with appreciation the document on the balance-of-payment adjustment process in the developing countries prepared at their request by UNDP/UNCTAD. They agreed with the fundamental conclusion of the study that, in determining the volume and conditionality governing balance-of-payments assistance, a clearer distinction needs to be made between the causal factors attributable to the domestic policies of the developing countries and the external elements beyond their control. In this regard, they expressed support for the view that an expansion of the flow of long-term capital through bilateral and multilateral channels should be regarded as an indispensable ingredient for improving the international environment for adjustment.

10. The Ministers noted the coming-into-effect of the Supplementary Financing Facility on February 23, 1979. They observed that the additional resources provided through this facility may play an important role in facilitating the adjustment process of developing countries. However, they expressed concern over the fact that the use of these resources would be subject to the harsh conditionality applicable to the higher credit tranches. They hoped that as a result of the recent review of conditionality carried out by Executive Directors, greater flexibility would be introduced into the use of Fund resources

11. The Ministers welcomed the decision recently taken by the Fund's Executive Board relating to further uses of SDRs and urged the adoption of measures to enhance the role of the SDR as an international reserve asset. They noted that the reconstitution obligation had been reduced from 30 to 15 percent and stressed the need for its complete abrogation.

12. The Ministers also welcomed the recent decision for a new allocation of SDRs over the next three years.

13. The Ministers noted the progress of deliberations in the Fund's Executive Board for the establishment of a substitution account and were of the view that this proposal still required further study, under all its aspects. They agreed that participation by developing countries should be voluntary.

14. The Ministers reiterated the need for the prompt establishment of the Common Fund of the Integrated Program for Commodities, and for a reform of the IMP compensatory and buffer stock facilities.

15. The Ministers noted with satisfaction that the Ministers of Finance of the Group of 77 had agreed to meet in Belgrade before the Annual Meeting of the IMF/IBRD, in order to discuss, inter alia, proposals for an effective reform of the international monetary system, and had requested the Group of 24 to undertake the preparatory work necessary to formulate the developing countries' position on the above-mentioned reform. It was decided that the Group of 24 will undertake the preparatory work.