INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

NINETEENTH MEETING OF MINISTERS

COMMUNIQUÉ

Belgrade, Yugoslavia
September 28, 1979

1. The Ministers of the Group of Twenty-Four on International Monetary Affairs held their nineteenth meeting in Belgrade, Yugoslavia, on September 28, 1979. Mr. David Ibarra-Muñoz, Secretary of Finance and Public Credit, Mexico, was in the chair, with Mr. 0. 0. Vincent, Governor of the Central Bank of Nigeria, and Mr. Cesar E. A. Virata, Minister of Finance, the Philippines, as Vice-Chairmen. The meeting was attended by Mr. Gamslni Corea, Secretary General, UNCTAD, Mr. J. de Larosière, Managing Director, International Monetary Fund, Mr. R. G. Ortiz, Secretary-General, OPEC, and Mr. E. Stern, Vice President, Operations, World Bank.

2. The meeting was preceded by the twenty-eighth and twenty-ninth meetings of the Deputies of the Group of Twenty-Four, with Mr. A. Phillips O., Mexico, as Chairman, and Mr. G. 0. Liwanko, Nigeria, and Mr. Benito Legarda, the Philippines, as Vice-Chairmen.

3. The Ministers of the Group of Twenty-Four approved the "Outline for a Program of Action on International Monetary Reform." They were of the view that this document contains the principles and guidelines for a viable and effective reform of the international monetary system. The document was unanimously endorsed by the Group of Seventy-Seven.

4. The Ministers reviewed the international economic situation and expressed concern over the further slowdown in the growth rate of industrial countries and persistence of high rates of unemployment and inflation and their detrimental effect on developing countries. The prospects for the rest of 1979 and for 1980 indicate a further deterioration. The Ministers noted with serious concern the unfavor-able economic outlook for non-oil developing countries and the contin-uous deterioration of the deficit on current account of the non-oil developing countries, which is estimated to reach US$45 billion in 1979 and to exceed US$53 billion in 1980. The principal factors accounting for this trend are a substantial deterioration in the terms of trade of non-oil developing countries; the increased protectionism by developed countries, especially in areas where developing countries have export potential and comparative advantage; and the slower growth in world trade. All this will result in a further deterioration of the import capacity of developing countries and accentuate their debt service requirements.

5. The Ministers noted with serious concern that the documents prepared by the international institutions conclude that the world economic situation has substantially deteriorated and that the developing countries in particular will face an extremely difficult situation in 1979 and in the years ahead. They were of the view that there is a notable inconsistency between this diagnosis and the weakness of the policy actions suggested.

6. The Ministers stressed the need for sustained growth in the levels of world trade and economic activity and pointed out the need for developed countries to compensate for any deflationary effects that could arise in the present circumstances. They also stressed the need for developed countries to promote a favorable international economic environment, in particular by undertaking the needed structural adjustments and eliminating and avoiding protectionist measures.

7. The Ministers expressed concern that the ratio of ODA to GNP of the developed countries has continued to decline. They noted that although a few countries have exceeded the 0.7 percent UN target, others have not met it. Hence, they called upon the developed countries that have not accepted the UN target to do so, and those that have not yet complied with it to do so without delay. They also urged them to improve the terms and conditions of such flows. The Ministers also called upon the contributors to fulfill their commitments to IDA-5 without further delay and to conclude expeditiously the negotiations for IDA-6. They urged developed and developing countries to vote on the proposed capital increase of the World Bank so that the lending programs can be carried out as planned. They further urged the implementation by all developed countries of the recommendations made by the UN General Assembly and UNCTAD V, calling for an increase in the transfer of real resources to developing countries. Ministers stressed the need for a substantial increase in program and sectoral lending by the World Bank and regional banks.

8. The Ministers felt that it was paradoxical that at a time of the growing payments imbalances of a number of member countries, and of severe external difficulties for most developing countries, the net use of Fund resources should show a decline. They suggested modi-fications to Fund policies to achieve a greater use of Fund resources and thereby effectively fulfill its role in the adjustment process. To that end, it was necessary to explore new ways in which the Fund could be of assistance. The Ministers supported an expansion to 50 percent of quota of the first credit tranche to help meet the present situation. Such an expansion could be compatible with the availability of the resources of the Fund. The Ministers stressed the need for early completion of legislative action by the countries concerned, to implement the Seventh General Review of Quotas in the IMF.

9. The Ministers welcomed the recent change in the IMF compensatory financing facility. However, they felt that this facility should be liberalized further to compensate increases in import prices end in the volume of imports, resulting from factors beyond the control of the member country. They suggested that consideration be given in the Fund to the establishment of an adequate STABEX facility and of a complementary facility for shortfalls in export receipts as soon as possible. They also noted the decision of UNCTAD V that these facilities should be studied in the context of the Integrated Program for Commodities.

10. The Ministers noted the important role of private capital flows in financing the capital requirements of the developing countries. Hence, they stressed the need for a broad and imaginative multi-lateral effort that would go beyond simple improvements and changes in existing mechanisms and facilities, and for the adoption of new approaches contained in the Outline for a Program of Action on International monetary Reform.

11. With regard to the substitution account, the Ministers noted that, at the forthcoming meeting of the Interim Committee, the Ministers will be called upon to decide whether or not to endorse the further study of a proposed substitution account. Since these would tend to be considered as steps toward a decision of substance the Ministers analyzed the impact of such an account upon the economies of the less developed countries. In this regard, they recommended that the support of the Group of Twenty-Four countries be conditioned upon further clarification of the features of this account on matters of interest to the developing countries such as: the voluntary character of the account at all stages of the mechanism; the liquidity, yield and usability of the new SDR-denominated asset; the impact on IMF charges and on the international capital markets and on the stability of the exchange markets. Its effect on the preservation of the capital value of the reserves also requires further examination. In addition, it was generally agreed that a substitution account would have to be seen within a framework of a balanced program of immediate action for the reform of the international monetary system. In this connection, they stressed that the regular annual allocations of SDRs should figure prominently in the package.

12. The Ministers expressed their deep gratitude for the hospitality of the people and Government of Yugoslavia and the excellent arrangements made for the meeting.