INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

TWENTIETH MEETING OF MINISTERS

COMMUNIQUÉ

Hamburg, Germany
April 23, 1980

1. The Ministers of the Group of Twenty-Four on International Monetary Affairs held their twentieth meeting in Hamburg, Germany on April 23, l980, Professor S. M. Essang, Minister of Finance, Federal Republic of Nigeria, was in the chair, with Mr. Cesar E. A. Virata, Minister of Finance, the Philippines, as Vice-Chairman. The meeting was attended by Mr. Gamani Corea, Secretary General, UNCTAD, Mr. J. de Larosière, Managing Director, International Monetary Fund, Mr. Cyrus Sassanpour, OPEC, and Mr. E. Stern, Vice-President, Operations, World Bank.

2. The meeting was preceded by the thirtieth meeting of the Deputies of the Group of Twenty-Four, with Mr. G. 0. Nwankwo, Nigeria, as Chairman and Mr. Benito Legarda, the Philippines, as Vice-Chairman.

3. The Ministers of the Group of Twenty-Four assessed the outcome of the Group of Twenty-Four held in September 1979, and noted that the World Bank and the IMF have reacted to some of the issues raised in their Outline for A Program of Action on International Monetary Reform prepared by the Group of Twenty-Four, endorsed by the Group of Seventy-Seven Ministers and submitted to the Development and Interim Committee as well as to the Boards of Governors of the Bank and the Fund during the Belgrade Meetings. They also noted that at the XXXIV Session, the General Assembly of the United Nations adopted a resolution which inter alia invited the appropriate international organizations to examine positively the Outline for A Program of Action, to take the necessary decisions to implement measures therein and to report to the General Assembly at the XXXV Session on progress made in this field. The Deputies urged that the Fund and the Bank should give urgent consideration to the Program of Action with a view to its early implementation. It was also observed that several recommendations of the Brandt Commission coincide with the stand taken by the Group of Twenty-Four.

4. The Ministers reviewed the international economic scene and noted with concern the further deceleration in growth rates, increased inflationary pressures and higher unemployment rates. There was also a rise in the current-account deficit of the non-oil developing countries, which is projected by the IMF at $68 billion in 1980. The worsening of the deficits of non-oil developing countries reflects the deterioration in their terms of trade, the weakness of import growth and rising protectionism in the developed countries. Inadequate flows of real resources to the developing countries particularly on concessional terms as well as the high cost of borrowing in international financial markets have aggravated the situation.

5. The Ministers welcomed the increased role which the Fund intends to play in the recycling process. They were agreed that, in a situation in which the deficits are to a considerable extent the result of external factors, the Fund's adjustment policies should not over-emphasize the role of demand management and exchange rates, but should give due attention to measures to promote supply and investment so as not to hinder growth prospects.

6. Against the background of the prospective serious deterioration of the external accounts of developing countries, the Ministers once again drew attention to the urgent need for a substantial increase in the transfer of resources to the non-oil developing countries and in particular of concessionary assistance to the low income countries. They expressed concern at the delay in the necessary legislative action in some major countries and urged speedy steps by the concerned countries to fulfill their commitments under the Sixth Replenish-ment of IDA, and to take positive action on the General Capital Increase of the World Bank. They also noted with concern the failure to make contributions to the regional banks. They considered it of the utmost importance that there should be no discontinuity in the IDA commitment authority and that operations of the regional banks should not be adversely affected. They reaffirmed the urgent need to have a time-bound program to meet the ODA target of 0.7 percent.

7. The Ministers discussed the proposed facility for structural adjustment lending by the World Bank and noted that discussions are yet to be completed on it by the Executive Board of the World Bank. They urged that the new facility should ensure additionality of funds, have low conditionality, be kept distinct from the IMF and be based on programs formulated by the developing countries themselves. They also felt that each country situation should be flexibly handled on a case-by-case basis and that the facility should not substitute for other types of non-project or project loans. The Ministers called for an annual real increase in World Bank operations from the current 5 percent to 10 percent. They also urged that program lending should not be limited to 10 percent of total Bank lending as presently contemplated by the Bank Management. They also noted that to make possible a larger lending program in the context of the expanding needs of developing countries, the World Bank's General Capital Increase assumed importance. Further, consideration would need to be given to raising the gearing ratio from the present 1 : 1 to 2 : 1 as proposed by the Brandt Commission.

8. The Ministers examined the co-financing operations of the World Bank. They welcomed the growth in lending that has resulted from these operations only to the extent that it involves additionality of funds and does not introduce elements of inflexibility into international financial institutions. They expressed the view that the operations should be available to countries only at their own request and should not be linked with structural adjustment loans. Any sale of debt instruments by the World Bank to the market should be coordinated with and approved by the country concerned. They expressed concern at the growing restrictions in major financial centers. Furthermore, they felt that the World Bank's co-financing activities should not affect the efficient lending practices and usual procedures of the international capital markets.

9. The Ministers expressed their concern about the increasing restrictions that are being introduced in the Euro-Dollar market. Since the role of the private financial system has become increasingly important and essential for many LDCs it is fundamental that this market should be kept free from interference.

10. The Ministers welcomed the decision to increase the maximum repurchase period under the extended Fund facility from 8 to 10 years. They noted that the average repurchase period was only extended by about 13 months, and expressed the view that there is room for still more improvement, including further extension of repurchase and grace periods. They stressed the need to make the conditionality more flexible. They also noted the progress report on the supplementary financing facility and urged early completion of discussions to expedite action on reducing the cost of borrowing under the facility.

11. The Ministers discussed the proposed establishment of a substitution account. They felt that the account is not a priority for the developing countries and emphasized that the priority at present is to provide an appropriate and efficient mechanism for the recycling of international liquidity. They noted that many elements of the substitution account are yet to be settled, in particular its financial viability. Nevertheless, they reiterated their willingness to continue its study in the framework of a balanced program of immediate measures for the reform of the international monetary system. The Ministers noted with concern the proposal to use part of the Fund's gold holdings to maintain the financial balance of the account. They felt that such use of gold is contrary to the spirit of the Jamaica agreement as well as being inequitable, since the account will basically benefit only a limited number of countries. In their view, profits arising from gold transactions should be used for the benefit of the developing countries in accordance with the spirit of the Jamaica agreement.

12. Ministers were of the view that the main elements of the framework of a balanced package should be:

(a) An increase in the share of developing countries in Fund quotas from approximately 33 percent to 45 percent;

(b) An annual allocation of SDR 8 billion over a five-year period starting from January 1982;

(c) A link between SDR allocation and development finance;

(d) A subsidy account to compensate the low-income countries for the rise in the cost of SDR use and borrowing from the Fund's facilities.

The Ministers stressed the need for urgent action on the implementation of the above.

13. Ministers urged that the Trust Fund should be continued and its resources augmented.

14. The Ministers expressed their deep gratitude to the Federal Republic of Germany and the city of Hamburg for the hospitality and excellent arrange-ments made for the meetings.