INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

TWENTY-SECOND MEETING OF MINISTERS

COMMUNIQUÉ

Libreville, Gabon
May 20, 1981

1. Ministers of the Group of Twenty-Four on International Monetary Affairs held their twenty-second meeting in Libreville, Gabon, on May 20, 1981. Mr. Cesar E. A. Virata, Minister of Finance, the Philippines, was in the chair, with Mr. Victor Bruce of Trinidad and Tobago, as Vice-Chairman. The meeting was attended by Mr. J. de Larosière, Managing Director, International Monetary Fund, Mr. R. S. McNamara, President, International Bank for Reconstruction and Development, Mr. G. D. Arsenis, Director, Money, Finance and Development Division, UNCTAD, Mr. C. Sassanpour, OPEC, Mr. H. E. Kastoft, Executive Secretary, Development Committee, Mr. D. Bihute, African Development Bank, Mr. V.-E. Djomatchoua Tokyo, Organization for African Unity, Mr. R. Fletcher, Inter-American Development Bank, and Mr. S. Dell, UNDP/UNCTAD Project Staff. Mr. Li-Peng, Vice-Minister of Finance of the People's Republic of China attended as invitee.

2. The meeting of Ministers was preceded by the thirty-second meeting of the Deputies of the Group of Twenty-Four, with Mr. Benito Legarda, the Philippines, as Chairman, and Mr. Victor Bruce, Trinidad and Tobago, as Vice-Chairman.

3. Ministers of the Group of Twenty-Four reviewed developments on the international economic scene since their last meeting in September 1980, and surveyed the short- and medium-term prospects, particularly for the economies of the developing countries. They expressed concern over the continued severity of inflation rates throughout the world, the decele-ration in growth rates, which in some cases are even negative, in both developed and developing countries, and the decline in the rate of increase in the volume of world trade which was recorded as slumping to 1-1/2 percent in 1980 and is projected to remain there in 1981. They voiced apprehension over external current account positions, which have been registering imbalances larger than forecast. They noted in particular that the combined deficit of the non-oil developing countries was $80 billion in 1980 and an estimated $97 billion in 1981. This is largely due to the deterioration in their terms of trade. Ministers underlined the fact that rising interest rates and shorter loan maturities have rendered the task of adjustment and development all the more difficult for developing countries. They pointed out that the non-oil developing countries could not restrain their imports further without seriously impairing their economic growth. They expressed concern at the inability of the developed countries to evolve appropriate adjustment policies, which could counteract inflation while avoiding depressed levels of economic activity. In this connection, they cautioned against the overemphasis placed by industrial countries on restrictive monetary policies resulting in higher interest rates which impose heavy burdens on developing countries.

4. Ministers stressed that the significant factors behind the deteri-oration in the position of developing countries were largely exogenous and thus not amenable to traditional short-term adjustment processes, in which the burden of adjustment is borne by the deficit countries alone. They were of the view that there was a tendency in the analysis of world economic problems to overemphasize the short-term elements without sufficiently recognizing the structural character of the problems. This resulted in excessive emphasis on short-term policy responses to structural problems. They stressed that the appropriate response to the economic malaise currently being experienced globally must include equitable sharing in the burden of adjustment among developed and developing countries.

5. Ministers noted that developed countries continued to pursue protectionist measures against the exports, manufactures including agricultural, of the developing countries. They pointed out that these endanger not only international trade but also financial flows by weakening the financial position of the developing countries. They therefore emphasized that, if a global economic recovery is to be realized, this protectionism must be removed and the developed countries' economies restructured in line with comparative advantage.

6. Ministers also emphasized that, in view of the longer-term nature of current problems, the achievement of even modest growth rates in the developing countries required a substantially enlarged flow of resources over the medium term. In this connection, they expressed concern about the stagnation of ODA flows and reiterated the urgency of increasing concessional aid to the low-income developing countries.

7. Ministers urged the IMF Executive Board to comply with the decision of the Interim Committee in September 1980 to enlarge members' access to 200 percent of quota annually and 600 percent over three years, especially as quotas continue to be woefully inadequate relative to the requirements of current economic developments. Moreover, this enlarged access should be linked to adjustment programs over longer periods with a proper balance between demand management and supply-oriented policies.

8. Ministers welcomed the start of the Seventh General Review of Quotas. They noted, however, that even with the full increase of quotas under the Seventh General Review, the ratio of Fund quotas to world imports has declined to its lowest point ever, from about 12 percent in 1965 to 4 percent in 1981. The Ministers welcomed the start of preparatory work in the Fund Executive Board on the Eighth General Review of Quotas and stressed the urgency of enlarging Fund quotas so that these may become adequate to meet the liquidity requirements of current global economic developments. They also stressed the need to reform the system of quota calculations to ensure an equitable distribution of voting power between developed and developing countries.

9. Ministers took note of the Fund's recent borrowing activities. They pointed out, however, that the problems the Fund is currently encountering relative to financing members' access to its resources derive from the inadequacy of quotas, the increase under the Seventh General Review notwithstanding. They affirmed, therefore, that the primary source of Fund financing must remain members' subscriptions though some borrowing, bilaterally as well as from the private market, may be necessary until quotas can be made adequate. Any borrowings that the Fund may need to make should be made so as not to create an unfavorable impact on developing countries'

access to these markets. In connection with the proposed sale of Fund paper, Ministers were of the view that decisions taken by central banks in this respect should not prejudice their access to the use of Fund resources. They reaffirmed, moreover, that whatever additional resources are obtained from borrowing at high market rates should be lent to Fund members, with an element of concessionality to low-income countries.

10. Ministers noted with appreciation the substantial contribution of Saudi Arabia to Fund resources in the form of lending. This would strengthen the lending capacity of the Fund and facilitate members' enlarged access to Fund resources. Ministers urged industrialized countries to make larger contributions than has been the case so far.

11. Ministers welcomed the new and simplified system of Fund charges. Noting that the charges had increased, they recognized the need, especially of low-income developing countries, for softer terms, in view of the heavier burdens they must bear in the adjustment process. They therefore felt that a remuneration rate of 80 percent would have been more appro-priate within the context of both the current world economic situation and the stagnation of ODA at a level that remains inadequate to the needs of developing countries.

12. Ministers welcomed the recent decisions adopted to enhance the reserve characteristics of the SDR, particularly the abrogation of the reconstitution requirement. They felt, however, that the objective embodied in the Articles of Agreement of making the SDR the principal reserve asset in the international monetary system calls for a substantial increase in SDR allocations. They recommended an allocation of at least SDR 12 billion annually during the fourth basic period. This, they felt, is indispensable to arrest the decline in the share of SDRs in world non-gold reserves, which had reached 3.6 percent at the end of 1980 compared with 7.8 percent at the end of 1972.

13. Ministers reviewed the issue of the link between development finance and SDR allocations. They noted that extensive justification for such a link had been provided on earlier occasions, and they reiterated their support for a direct link, which should in no way be tied to the use of Fund resources.

14. Ministers took note of the Fund's decision in respect of assistance to members adversely affected by higher cereal import costs, which recognized the seriousness of the problem facing many developing countries, and expressed appreciation to the Managing Director for his efforts in bringing about this facility. They were of the view that the Fund's action falls short of the expectations of the developing countries with respect to the magnitude and coverage of assistance that will be forth-coming from this facility. They expressed the hope that, in the review of this facility, the Executive Board will find ways of improving it to make it more responsive to the needs of developing countries. They also took the opportunity to reaffirm the decision made in September 1980 for a longer repayment period in the Compensatory Financing Facility in the event of natural disasters.

15. Ministers welcomed the establishment of the Subsidy Account for reducing the cost of the Supplementary Financing Facility to low-income developing countries. In this connection, they expressed their appreciation to contributors to this account and urged those that have not yet

decided to do the same. However, they voiced serious disappointment over the use of Trust Fund resources as the principal resource for the Subsidy Account. They noted that this use of the Trust Fund involved no additionality for the low-income countries but also subjected the users of these resources to higher conditionality. Ministers expressed regret that the views of the developing countries with respect to the Trust Fund as expressed in the last communiqué of the Group of Twenty-Four had been completely disregarded. Ministers noted that considerations justifying a subsidy in the case of the Supplementary Financing Facility are fully applicable to its successor, the policy of enlarged access. They therefore urged the establishment of a subsidy mechanism for this policy also. Moreover, they urged the early resumption of Trust Fund-type loans which could be made available to eligible developing countries before repayments of existing Trust Fund loans were completed.

16. Ministers reviewed the role of the World Bank in the light of the deterioration in the economic situation facing developing countries. They voiced strong support for expanding the lending programs of the IBRD/IDA, noting that the reasons given by the management in support of an expanded program in December 1980 remain entirely valid today. Ministers recalled earlier endorsement of the expanded program at that time and expressed deep disappointment at the unsympathetic attitude adopted by developed countries, which has led to the setting aside of this program. Ministers noted that the present proposals for IBRD lending in FY 1982 are at the same level as originally projected in 1977. Since the pace of inflation has been more rapid than anticipated at that time, this implies a lower level of real resource flows. Ministers urged immediate reconsideration of the 1982 program to ensure adequate expansion taking into account the increase in requirements arising out of structural adjust-ment lending, energy investments, and the entry of the People's Republic of China. They underlined the importance of making the General Capital Increase effective in October 1981. In this connection, they called for an early resolution of the question concerning the valuation and the maintenance of the value of the Bank's capital.

17. In the context of the medium-term perspective, Ministers urged a full reconsideration of the expanded lending program to enable the IBRD to play its proper role in development financing. In this con-text, Ministers urged that consideration be given to changing the Bank's gearing ratio. They emphasized that this would result in substantial additionality of resources flowing through the Bank and would add to its flexibility in tapping new segments of the international financial market. In view of the lead-time needed for effecting a change in the gearing ratio, they urged that an early start be made in this process.

18. Ministers noted with concern the hiatus in IDA operations and underlined the urgency of restoring IDA's commitment authority at the earliest possible date. They stressed that the need for increasing ODA in the 1980s has been heightened by developments in world trade and in financial markets, which have adversely affected low-income developing countries. They expressed concern over the suggestion to shift IDA projects, most likely of blend countries, to the IBRD. This move, they felt, would impose on these countries additional debt service burdens, which they can ill afford. They indicated, moreover, that the considerations that justified expanded IBRD/IDA lending programs for the period FY 1982 - FY 1986 give a high degree of urgency to the need for making IDA-6 effective speedily, and for starting negotiations for a substantially enlarged IDA-7.

l9. Ministers underlined the need for substantial additional resources from the multilateral development institutions for the development of energy potentials of developing countries. They urged the World Bank and other multilateral development institutions to explore all means of raising additional capital, including the possibility of an energy affiliate, which may be the most expeditious way of raising such additional capital. Such expanded lending should take full account of the programs of existing international and regional organizations. They also stressed that energy proposals must be evaluated in the context of a perspective that is at once global, strategic and truly adequate to the diversity of needs of the developing countries.

20. Ministers reaffirmed the significant role played by regional development institutions not only in bringing about growth in the developing world but also toward creating a global trade and economic environment beneficial to all. They recommended that the lending levels of these institutions be expanded according to the requirements of the development process in these most trying of economic circumstances. Ministers also recommend replenishment of the resources of regional development institutions. They likewise requested the Task Force to study the implications of worldwide inflation and higher levels of interest rates resulting from the restrictive monetary policies of the industrialized countries on the balance-of-payments position of developing countries. Furthermore, they requested an examination of the subject of the increase in interest rates and various other charges to minimize them to acceptable levels.

21. Ministers welcomed the report of the Task Force on Non-Concessional Flows, commended its members for having approached their work imaginatively, and urged continued support for its work. They took note of the proposals made by the Task Force on greater cooperation between multilateral develop-ment institutions and commercial lenders and on the situation of the external indebtedness of most developing countries. They encouraged the Task Force in its plans to examine other ways by which the flow of funds from multi-lateral development institutions might be increased.

22. Ministers expressed strong support for the proposal to establish a Task Force on Concessional Flows to study and recommend ways by which the volume, quality and impact of concessional assistance might be enhanced.

23. Ministers took note of the study being conducted by the World Bank on the development requirements of the sub-Saharan African countries. They stressed that this study should be oriented toward the achievement of the general objectives and specific programs contained in the Action Plan and the final act adopted by the heads of state and governments of the Organization of African Unity in April 1980 in Lagos, Nigeria.

24. Ministers of the Group of Twenty-Four expressed their deep appreciation to Mr. Robert McNamara for his distinguished work for the social and economic development of developing countries during his long years as President of the World Bank. They expressed their best wishes to him in his new ventures.

25. Ministers welcomed the attendance of the Representative of the People's Republic of China in their meeting as invitee.

26. Ministers expressed gratitude to the government and people of the Republic of Gabon for their hospitality; they appreciated the warm welcome and efficient arrangements for the Meetings.