INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

TWENTY-THIRD MEETING OF MINISTERS

COMMUNIQUÉ

Washington, D.C.
September 25, 1981

1. The Ministers of the Group of Twenty-Four on International Monetary Affairs held their twenty-third meeting in Washington, D.C. on September 25, 1981. Mr. Cesar E. A. Virata, Prime Minister and Minister of Finance of the Philippines was in the chair, with Mr. Victor Bruce of Trinidad and Tobago, and Mr. Aly Mohamed Nega of Egypt, as Vice-Chairmen. The Meeting was attended by Mr. J. de Larosière, Managing Director, International Monetary Fund, Mr. A. W. Clausen, 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, and Mr. C. Ossa, UNDP/UNCTAD Project Staff. Mr. Li Baohua, President, People's Bank of China, attended as invitee.

2. The meeting of Ministers was preceded by the thirty-third meeting of the Deputies of the Group of Twenty-Four on September 23-24. Mr. Benito Legarda of the Philippines, was Chairman, and Mr. Victor Bruce, Trinidad and Tobago, and Mr. Aly Mohammed Nogal Egypt, were Vice-Chairmen.

3. The Ministers of the Group of Twenty-Pour surveyed the international economic scene of the past year and the prospects for development in the 1980s, particularly for developing countries. They voiced their concern over indications that the world economic outlook over the short- and medium-term would continue to deteriorate. Growth rates for developed economies were projected at only 2 percent in 1982, having fallen to 1.25 percent in 1980-81 from the 4 percent registered in 1976-79, and for developing countries at 4.7 percent in 1982, from 5.3 percent and 4.4 percent during 1976-79 and 1980-81, respectively. In fact, one third of all non-oil developing countries had growth rates of 1.5 percent or less in 1980, and a large number of these countries experienced declines in real output. Ministers noted with concern that the current-account deficits of non-oil developing countries were rising rapidly, from $84 billion in 1980 to $97 billion in 1981 and $100 billion in 1982, resulting in severe financial strains in their economies. Flows of long-term funds from private financial sources have declined, principally due to successive interest rate shocks and uncertainties in the financial markets. Ministers emphasized that these factors have imposed heavy debt-service burdens on developing countries, burdens which in turn have been aggravated by the uncertainties stemming from the volatility of the exchange rates for the major currencies. These difficulties have been further compounded by the worsening in their terms of trade which, in effect, has resulted in a transfer of resources from developing to developed countries. They also expressed grave concern over the protectionist

measures that industrial countries have continued to maintain, stressing that this seriously impairs adjustment by non-oil developing countries by placing limitations on markets for their exports.

4. Ministers expressed concern over the unfavorable evolution of the prices of most primary products and the impact on the already delicate external position of many developing countries, particularly the non-oil developing countries. They took note of a major industrial country's stated intention to sell some of these commodities from its strategic reserves. They were of the view that if this measure is finally put into practice, it will have a disruptive effect on international markets with a harmful impact on the economic situation of producers and exporters of these products in developing-countries.

5. Ministers noted that the solution to the payments problems of developing countries in the present unfavorable world economic environment will require adjustment of a structural nature, of long duration, involving considerable social cost. They stressed that such adjustment should not be based on the traditional deflationary policies but should in fact promote economic and social growth. The developing countries need the support of the inter-national financial institutions, which should be provided on terms consistent with the development of social consensus for adjustment. Ministers, therefore, regretted the tendency in these institutions to tighten their conditionality and harden their terms in extending their support. In this connection, Ministers expressed concern over the suggestion by some important industrial countries that these institutions should adopt even stricter conditionality than at present in their lending programs.

6. Ministers took note of the Fund and Bank analyses characterizing adjustment in the current situation as largely structural in nature and thus requiring medium- and even longer-term solutions, and as being the shared responsibility of all countries, industrialized as well as developing. They deplored the unwillingness of developed countries to pursue policies supportive of international development and growth, noting that this stance has resulted in further pressures on the adjustment efforts of developing countries. They emphasized the urgent need for industrial countries to restructure their economies in accordance with the emergence of a new distribution of comparative advantage which favors developing countries in the production of many manufactured goods. They urged the Fund to adapt conditionality to the particular circumstances of individual developing countries and to take into account the causes of their problems and, in this connection, they stressed that the often recommended prescription of exchange rate changes is not necessarily the most appropriate instrument of adjustment. Ministers recognized that the present balance-of-payments disequilibria of developing countries are in most cases externally induced. In this connection, they stressed the need for the prompt consideration and implementation of the medium-term facility proposed in the Group of Twenty-four Program of Action which is an appropriate mechanism for coping with the present balance-of-payments problems of developing countries.

7. Ministers urged industrial countries and international financing institutions to increase support for the medium- and long-term adjustment measures adopted by developing countries, including energy production, by transferring resources on the most reasonable terms. They expressed concern over the forecast for the 1980s made in the latest World Development Report that the

gap between the richest and poorest countries will continue to widen. They noted with deep concern the grim prospects for the growth of the low-income non-oil developing countries. They consequently stressed the need to increase concessional flows from the international donor community to the low-income developing countries. In this connection, they expressed dissatisfaction over the prospects of the continued inadequacy of ODA flows in the 1980s. They urged the industrial countries to reach the internationally agreed target for ODA without any further delay.

8. Ministers reiterated their call to 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.

9. Ministers reiterated their concerns over the undue emphasis industrial countries have placed on restrictive monetary measures in their fight against inflation, neglecting appropriate fiscal policies. They indicated that this stance of the industrial countries has resulted in very high interest rates in both nominal and real terms and in volatile exchange rate movements, which, in turn, have imposed heavy burdens on developing countries.

10. Ministers stated that in exercising surveillance over exchange rates and balance-of-payments policies, the Fund should treat all member countries equitably and symmetrically whether or not they use the Fund's resources. They urged the Fund to rid its present practice of surveillance of the bias toward having the main burden of adjustment fall solely on deficit countries most of which are non-oil developing countries. They also recalled the principles concerning surveillance which had been articulated in Jamaica in 1976. Surveillance must take account of the particular circumstances of each member country, e.g., its level of development. It must, moreover, be undertaken with special attention to those countries whose currencies play a major role in the international economic system with a view to accelerating the dismantling of their existing trade barriers, especially those affecting the vital interests of developing countries.

ll. Ministers expressed deep regret over the insensitivity of some industrial countries to the agreements reached on making the SDR the centerpiece of the international monetary system. They stressed that the decision to allocate SDRs in the third basic period had been based on the statement made by the Managing Director and endorsed by the Board of Governors to the effect that the decision for allocating SDRs does not depend on a finding that the long-term global need could not be fully met except by allocation. Interruption in the allocation of SDRs would convey the wrong signal that the SDR is being downgraded as an international reserve asset. Ministers reiterated their view that a substantial annual allocation was necessary in order to realize the objective for the SDR embodied in the Articles of Agreements. It may, however, be mentioned that an allocation of at least SDR 12 billion annually may be required to restore the ratio of SDRs to international reserves to the level reached in 1972. They stressed that an allocation of this size would not be inflationary, especially if it was accompanied by a change in the composition and not the level of international reserves. They further observed that the attractive yield on SDRs would inhibit any tendency towards their excessive use. They noted that global inflation was mainly due to the domestic policies implemented in reserve centers. Finally, they noted the inconsistency of those countries opposed to an increase in unconditional liquidity for the global community through allocation as they continue to expand unconditional liquidity for themselves through the expansion of their reserve currencies.

12. Ministers reiterated their support for a direct link between SDR allocations and development finance. They reaffirmed that extensive justification for a link had been provided on earlier occasions. They stressed that a link should be a vehicle for the correction of inequities in the allocation of SDRs based on present quotas, thus helping to redistribute resources equitably among the rich and poor countries in the system.

13. Ministers reaffirmed that as a matter of principle the Fund's liquidity and financing operations should primarily be based on quota subscriptions. They stressed that pressures on liquidity have emerged because of the failure of the Fund to increase quotas consistent with the growth in world trade and payments. The Ministers urged the Committee of the Whole for the Eighth General Review of Quotas, recently formed under the chairmanship of the Managing Director to hasten its work toward ultimately strengthening the Fund's resource base and rendering it adequate to the Fund's enlarged role in the international economic system. Pending the Eighth General Review of Quotas, Ministers expressed willingness to endorse a program of borrowing adequate to meet the Fund's liquidity needs, from official sources and, if necessary, from private sources, with the Fund borrowing and lending on appropriate terms to a financial intermediary. They nevertheless recommended that it be ascertained that developing country access to the private markets shall not be adversely affected by this program of borrowing. Ministers noted that borrowings would involve interest costs, which would then have to be passed on to users of Fund resources. In this context, the Ministers urged that a Subsidy Account for Enlarged Access to Resources be established as soon as possible on lines similar to the Subsidy Account for the Supplementary Financing Facility.

14. Ministers reiterated the need to reformulate the present basis of quota calculations at least to correct the imbalance in voting power between developing and developed countries. They reaffirmed the need to increase the share of the developing countries' quotas to 45 percent.

15. Ministers welcomed the agreement reached on an interim procedure for the valuation of World Bank capital, which has opened the way for members to subscribe to the General Capital Increase (GCI). They underlined, nevertheless, that though the GCI would in fact broaden the Bank's resource base, the demand for Bank funding continues to grow apace and to require resource expansion by other means. They recommended that proceedings be initiated at the earliest possible date toward effecting an appropriate change in the Bank's gearing ratio and exploring other mechanisms for increasing the Bank's resources. They expressed grave concern over the Bank Board's decision to implement the IBRD lending program for FY82 based on the assumptions made in 1977, which did not take into account the new China representation in the Bank, nor the establishment of a structural adjustment lending facility (SAL), nor the current requirements of energy investments, nor the higher than anticipated level of inflation. They urged the early augmentation of the FY82 Bank lending program. Ministers stressed that lending criteria should take into account the development needs of all members, including those with market access but for whom present financing from the Bank and other multilateral development

institutions (MDIs) constitutes the only viable source of long-term capital.

16. Ministers welcomed the Recognition by the World Bank of the urgent need to expand and finance energy production substantially in non-oil developing countries. They also welcomed the Nairobi Conference on New and Renewable Sources of Energy. They re-emphasized that an increase in the World Bank's energy financing, if it were to be meaningful, must represent a net addition to total available resources. 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. They proposed that a working group be organized before the Helsinki meeting of the Development Committee which would determine the optimum means of financing an expanded energy program and the appropriate mechanisms by which the program could be implemented, including the feasibility of an energy affiliate of the World Bank.

17. Ministers welcomed the coming into effect of IDA-VI and urged contributors to release their full second installment in advance, in order to avoid an interruption in the Association's planned lending operations. They reaffirmed their 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 also urged that the negotiation process for IDA-VII be initiated before the Helsinki meeting of the Development Committee. In this connection, the Ministers underlined the need to expand IDA lending programs substantially in real terms, according to the requirements of low-income developing countries - as outlined in the World Development Report 1981- and especially of the countries in Sub-Saharan Africa.

18. Ministers considered the report on the lending operations of the regional development banks. They stressed the urgency of generating enough political will to ensure that at least the optimum development scenario envisaged in the World Development Report 1981 be realized globally through the commitment and timely payment of expanded resources to the regional development institutions. Moreover, they encouraged the regional development banks to consider accepting membership by non-regional countries interested in contributing to the resources of these banks.

19. Ministers welcomed the completion of the World Bank staff study, "Accelerated Development in Sub-Saharan Africa: An Agenda for Action." They voiced concern, however, over the feasibility of its recommendations which even the report had considered as 'technically difficult' and 'politically thorny.' They underlined the urgency of prompt responses on the part of the international community of donors and multilateral finance institutions with a view to formulating a comprehensive action program addressing the specific needs of Sub-Saharan Africa. They also proposed the establishment of a formal structure of dialogue between governments of the region on the one hand and the international donor community on the other, for the purpose of arriving at specific action programs designed according to the exigencies of the situation. They deplored the tendency in the study to link aid to the acceptance of a certain type of development model.

20. Ministers noted that the World Bank and the Fund have considered and, in some instances, have begun to implement some of the recommendations made by the Group of Twenty-Four in

its "Program of Action on International Monetary Reform" and by the Brandt Commission. They expressed disappointment, however, over the failure of both institutions to act positively on some of the more substantive of these recommendations, such as the expansion of the Bank's lending program and the SDR allocation-development link.

21. Ministers urged early agreement on the composition and terms of reference of the Task Force on Conventional Flows. They stated that the importance of the work of this Task Force cannot be overemphasized. There is a fundamental need to expedite the resolution of the problems that currently affect the volume, quality, and effective use of concessional transfers of resources to developing countries.

22. Ministers commended the Task Force on Non-Concessional Flows for the substance, breadth, and the direction of its work to date and assured the Task Force of their continuing support.

23. Ministers reiterated the need for an effective strategy to deal with the official external indebtedness of some developing countries, designed to avert servicing difficulties and sustain the development process of these countries. It was, however, understood that this was not a problem for many of those countries which have at present access to international financial markets.

24. Ministers expressed regret over the present standstill in the global negotiations on North-South issues. They voiced their hope that the Cancun Summit, convened on the initiative of the President of Mexico and the Chancellor of Austria, would allow the process of global negotiations to commence.

25. Ministers took note of the annual report of the Development Committee for 1981 and the review of its performance since 1978. They expressed disappointment over the fact that, despite the reorganization that had been effected, and despite the vigorous efforts of its developing-country chairmen to steer the Committee towards increased effectiveness, the Committee has not achieved much of significance. They attributed such unsatisfactory performance to the lack of political will shown by some of the developed country members in supporting the effective attainment of the Committee's objectives. They therefore urged the developed countries to forge the political will necessary to support and advance the work of the Development Committee.

26. Ministers welcomed the transmittal by the Chairmen of the Group of 77 in New York of the final report of the Caracas High Level Conference on Economic Cooperation Among Developing Countries. They emphasized the importance of close coordination in this area among developing countries such as the Santo Domingo Agreement in Latin America. They stated that, in accordance with the mandate that the Group of Twenty-Four had received from the Group of 77 Ministers in Belgrade in September 1979, they would give due consideration to the report's recommendations dealing with financial and monetary cooperation among developing countries. The Ministers asked the Deputies to consider this matter at an early date.