INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS TWENTY-FOURTH MEETING OF MINISTERS

COMMUNIQUÉ

May 11, 1982
Helsinki, Finland

1. Ministers of the Group of Twenty-Four on International Monetary Affairs held their twenty-fourth meeting in Helsinki, Finland on May 11, 1982. Mr. Victor Bruce, Governor of the Central Bank of Trinidad and Tobago, was in the chair, with Mr. Aly Mohamed Negm of Egypt and Mr. I. G. Patel of India 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. Roger Lawrence, Director, Money, Finance and Development Division, UNCTAD, Mr. C. Sassanpour, OPEC, Mr. H. E. Kastoft, Executive Secretary, Development Committee, Mr. Hassan Al-Najafi, Governor, Central Bank of Iraq, Sheikh Hamad Al-Sayari, Vice-Governor, SAMA, and Mr. S. Dell, UNDP/UNCTAD Project Staff. Mr. Wang Bingqian, Minister of Finance, People's Republic of China, attended as invitee.

2. Ministers of the Group of Twenty-Four reviewed developments in the international economic situation and noted the serious deteriora-tion since their last meeting in September 1981 as evidenced by the continued weakness in economic activity. High though somewhat reduced rates of inflation, and large imbalances on external current account. Moreover, those developments have been accompanied by an alarming weakening of the spirit of international economic cooperation.

3. Ministers noted that the deepening recession in the developed countries has led to high and increasing levels of unemployment, depressed market conditions for exports from developing countries, and increasing protectionism. Policies of high nominal and real interest rates have in their turn contributed to volatility in the exchange markets.

4. Ministers also noted with concern the adverse impact which these conditions are having on developing countries whose growth rates have declined to a point where their per capita incomes have fallen for the first time in several years. Further, the current account deficit of non-oil developing countries has been projected to rise from US$39 billion in 1978 to US$100 billion in 1982 and 1983. They observed that the financing of this deficit places severe debt-service burdens on these countries, particularly in the context of high and rising interest rates. For non-oil developing countries, interest payments are projected to represent over 8 percent of the value of their exports and as much as 41 percent of their forecast deficit in 1982.

5. Ministers, while recognizing the importance of fighting inflation, expressed grave concern about the policies pursued by the industrial countries in their adjustment programs and took the view that, not only are these policies inadequate from the point of view of their national economies, but that excessive reliance on monetary policy in the face of large and persistent fiscal deficits also has deleterious effects on the international economy. Ministers called for an appropriate mix of policies that would take due account of the interdependence of the world economy.

6. Ministers observed that developing countries are undertaking structural adjustments on all fronts, but emphasized that such adjustments can only be undertaken successfully against a favorable international background and must be growth-oriented to prevent the emergence of social and economic upheavals. They cited widespread protectionist measures in both the agricultural and manufacturing sectors -- which indicated unwillingness on the part of the developed countries to undertake structural adjustments -- and the strong deflationary policies pursued by the industrial countries as frustrating the adjustment efforts of the developing countries.

7. Ministers emphasized that there should be symmetry in the adjustment process as between developing and developed countries. They felt that the inability of the Fund to exercise effective surveillance over the policies of industrial countries had placed unduly large burdens of adjustment on developing countries. In this connection, they called for basic reforms in the international monetary system to enable the Fund to exercise such surveillance.

8. Ministers noted the serious concern expressed by several Ministers over the recent use of measures restricting the free flow of trade and the blocking of financial transactions with the aim of seeking solutions to political issues and noted further that these Ministers asked for their removal.

9. Ministers called for a substantial increase in Fund quotas. They urged that the size of the quota increase should restore the former relationship between quotas and world trade and should be commensurate with the members' potential financing needs to the end of the 1980s, so as to enable the Fund to play its appropriate role in the international monetary system. They emphasized that a sizable quota increase would also serve to eliminate or substantially reduce the need for borrowing by the Fund and would restore the role of quotas as the primary source of Fund financing. They stressed that the weight attached to the variability element in the calculation of quotas should be maintained in order to reflect the instability of members' external sectors. They maintained that, in the distribution of quotas, each country's importance in the world economy should be fairly reflected, which does not mean, however, placing sole emphasis on the ability of countries to contribute to the Fund's usable resources. In this connection, they reiterated the need to re-examine the present basis of quota calculations and, in particular, the variables involved and the weights to be attached to them.

10. Ministers stressed that consideration must also be given to the fact that quotas determine voting power in the Fund and should ensure proper representation of the different regional groups and economic categories. They reiterated the call for correcting the imbalances in voting power between developed and developing countries through an increase in the share of quotas

held by developing countries to 45 percent of total quotas, but stressed that no individual developing country's quota share should be reduced. Ministers also called for an increase in basic votes.

ll. Ministers recommended that the Committee of the Whole on the Review of Quotas complete its work in time for presentation at the 1983 Fund/Bank Annual Meetings.

12. Ministers deplored the interruption of SDR allocations because of the lack of agreement thus far on allocations of SDRs in the fourth basic period. They stressed that new allocations of SDRs would contribute significantly to world economic recovery and would serve to diversify reserve holdings. They felt that the trends in global liquidity fully warrant allocations of SDRs in the fourth basic period, and recalled that past decisions to allocate SDRs had been based on the premise that such decisions do not depend on a finding that the long-term global need for reserve growth could not be fully met except by SDR allocations. The qualities and distributional aspects of the SDR make it the most appropriate form of reserve growth. They reiterated that an annual allocation of SDR 12 billion would be required merely to restore the ratio of SDRs to reserve assets to the level reached in 1972; and they re-emphasized their rejection of the argument that this level of allocation would be inflationary. Ministers restated their support for a direct link between SDR allocations and development finance and reaffirmed that extensive justification for a link has long been provided.

13. Ministers reiterated that, in the context of the current economic situation, the Executive Board's decision with regard to enlarged access to the Fund's resources is inadequate to meet the needs of developing countries and inconsistent with the recommendations of the Interim Committee for access of 200 percent and 600 percent of quota each year and over three years, respectively. In any event, the current limits of 150 percent and 450 percent, respectively, should be maintained until quotas are increased to an appropriate level under the Eighth General Review of Quotas.

14. Ministers expressed serious concern at the hardening of Fund conditionality and the growing number of inoperative programs. They felt that the increase in the use of preconditions shifts a dispro-portionate burden of the adjustment effort to the initial part of the program period. They regretted the emphasis on demand management policies and the limited role assigned to policies to enhance supply and to address structural imbalances, which give Fund programs an essentially deflationary character that is not appropriate to the structural nature of the problems faced by most developing countries or to the conditions of the world economy. They underlined the need for the Fund to play a greater role in the recycling and adjustment process, through appropriate conditionality, so as to encourage coun-tries to approach the Fund at an early stage before their positions deteriorate excessively.

15. Ministers observed that the Fund has long recognized the structural nature and long-term character of the current payment imbalances. In this context, they urged that the medium-term facility set out in the Outline for a Program of Immediate Action on International Monetary Reform should be introduced.

16. Ministers reviewed current policy on the compensatory financing facility and expressed

concern at the attempt by the Fund to impose a structure of conditionality on the use of this facility, contrary to the original intentions; in their opinion this was illogical in view of the exogenous and reversible nature of the problem addressed. They noted with regret that the Fund had not acted positively to bring about symmetry in respect of under-compensation and over-compensation.

17. Ministers voiced apprehension at the increasing pressures on the Fund to urge countries to seek access to international capital markets as a prior condition of recourse to Fund assistance for meeting their balance-of-payments needs. They rejected the notion that the Fund should be a lender of last resort.

18. Ministers urged the Fund to continue the process of bilateral borrowing arrangements with central banks and other official institutions. They agreed to place on record member countries' appreciation to the central banks and official institutions that had given substantial support to the Fund's borrowing program. Finally, the Ministers acknowledged that it might be necessary for the Fund to augment its resources temporarily through private market borrowing but maintained that, in keeping with the cooperative and intergovernmental character of the Fund, the basic source of financing for the Fund should be quotas.

19. Ministers stressed the importance of the IDA program as a partnership to promote economic growth essential to global stability and security. They were firmly of the view that IDA-VI must remain a three-year program as originally negotiated and, in this connection, they noted the recent favorable developments with respect to the funding of IDA-VI and expressed their appreciation that despite the regrettable failure in commitment of a major donor country, several countries have indicated willingness to release the full balance of their second installments. They urged those donor countries that had not already done so to release their second installment in full, and urged all donor countries to release contributions for FY 83 in accordance with the original agreement.

20. Ministers noted that the World Bank had introduced an emergency plan of action designed to meet the anticipated shortfall in the commitment authority of IDA in FY 82 but stressed that, in the light of changed circumstances, the additional resources available for FY 82 and FY 83 should be fully committed during the replenishment period of IDA-VI, i.e., before June 30, 1983. They commended the efforts being made by the Bank, in consultation with donor countries, to explore ways of ensuring a level of operation as close to normal as possible through waivers, which may be supplemented where necessary by different modalities such as the establishment of a special account. However, they stressed the need to ensure that such an account would be fully consistent with the objectives of IDA and with its long-term viability.

21. Ministers urged that the negotiation process for IDA-VII should be initiated without any further delay and that negotiations be completed before the end of the present three-year program, so that IDA-VII may commence operation in FY 84. Ministers underlined the need to expand IDA-VII lending programs substantially in real terms, in order to meet adequately the requirements of low-income developing countries, particularly the least developed countries.

22. Ministers, noting the current difficult economic situation of developing countries,

emphasized the urgent need to increase the lending program of the Bank to meet not only the requirements of traditional operations but also new demands. Ministers, recognizing that the purpose of the General Capital Increase is to expand rapidly the Bank's lending, urged the Bank to design immediately a plan of action to meet the objective of an annual increase of at least 5 percent in real terms in its lending program. Appropriate financial policies to enable such an expansion will have to be worked out, keeping in mind the developmental character of the institution. They stressed that the Bank should utilize borrowing techniques in a way that would minimize borrowing costs, so that it could lend at rates consistent with its development character. In addition, other mechanisms for increasing the Bank's lending capacity should be explored. They urged all member countries to allow maximum access by the Bank to their capital markets.

23. Ministers reiterated the critical need for energy investments in developing countries and welcomed the progress made by the Bank in this regard, but stressed nevertheless that the success of the program should be judged by the criterion of "additionality." They called upon the Bank to initiate further discussions on the optimum means of financing an expanded energy program, including both the feasibility of an energy affiliate and the idea of a pool or trust fund for energy lending. They urged that, in the interim, the Bank should expand the scale of its lending program for energy without jeopardizing its lending operations to other sectors.

24. Ministers expressed concern at the policy of graduation from IBRD and other similar banks, which they felt would restrict the role of these institutions. They favored alternative approaches, including the one based on the concept of maturation, which would allow these institutions to play their proper role while making some differentiation in the treatment of countries at different stages of development.

25. Ministers underlined the importance of continued financial support to regional development banks to allow them to carry out their developmental activities. They urged member governments to fulfill their commitments in respect of the existing replenishment exercises and suggested that regional development institutions should consider accepting membership by non-regional countries interested in contributing to the resources of these banks. In addition, they recommended that regional banks adopt the practice of permitting governments to grant domestic suppliers an appropriate margin of preference that would not be less favorable than the best prevailing practice.

26. Ministers commended the Task Force on Non-Concessional Flows for its work and urged that appropriate arrangements be made to review further developments in the field of non-concessional flows. They noted that the Task Force projected an annual rate of growth of 15 percent in non-concessional flows in the medium term and they expressed concern over the implications for the growth rate of developing countries, even that the annual average increase of about 25 percent in these resources in recent years has been associated with only modest rates of economic growth for developing countries. They urged the monetary authorities of developed countries to avoid the introduction of measures that are likely to prevent or discourage the international banking community from lending to developing countries.

27. Ministers stressed that any decision to make use of co-financing should be made by the borrower and that this should not be made a condition for lending by the Bank. Moreover, co-

financing should involve additionality of resources.

28. Ministers noted the recommendation in the World Bank report on Sub-Saharan Africa that there should be a doubling of aid in real terms to help overcome the development crisis in that region, and they appealed for an adequate donor response in the context of the implementation of the IDA-VI replenishment, the uncertainties surrounding IDA-VII, and the hardening attitude of donor countries towards development aid. They welcomed the fact that, in the reallocation of IDA funds, Sub-Saharan Africa will receive 34 percent of these resources in FY 82. They rejected any attempt to formulate a standard model of development for developing countries and deplored the tendency in the study to link aid to the acceptance of a certain kind of development model.

29. Ministers underlined the need for urgent implementation of the G-24 Program of Immediate Action and the Recommendations of the Brandt Commission. They recommended that both the Fund and the Bank undertake urgent reviews of these recommendations, especially in the light of the deteriorating economic situation and gloomy growth prospects for development.

30. Ministers noted that the Deputies in their thirty-fourth meeting considered the recommendations of the Caracas High Level Conference on Economic Cooperation among Developing Countries. They agreed that economic cooperation among developing countries should be ongoing, and felt that developing countries should work out the modalities in a manner most suitable to their circumstances and that initiatives in this regard should be practical and capable of producing positive results in the short run.

31. Ministers noted two reports by the Intergovernmental Group of Experts of the G-77: one from Baghdad, Iraq on the establishment of a World Fund and another from Kingston, Jamaica on a proposal for the creation of a Bank for developing countries. They also took note of the UNIDO proposal for the establishment of an international bank for industrial development and of the follow-up work envisaged by the G-77 in consideration of these proposals.

32. Ministers, while emphasizing the contribution that joint ventures could make to cooperation among developing countries, felt that the matter was best left to the initiatives of individual or groups of developing countries.

33. Ministers recognized the usefulness of regional balance-of-payments support arrangements and agreed that this question should be studied further, taking into account the Santo Domingo and San Jose arrangements and other similar facilities.

34. Ministers favored expanded coverage of clearing and payments arrangements and took note of the progress which has been accomplished as regards the linking of regional and sub-regional arrangements. Ministers agreed to review this subject at their next meeting in Toronto.

35. Ministers felt that the subject of export financing as a means of promoting trade among developing countries should be explored further. This could include reinforcement of existing facilities or institutions (like BLADEX), the establishment of export credit guarantee schemes, and export refinancing facilities in existing international and regional financial institutions.

Ministers requested the G-24 Bureau to prepare, in collaboration with UNCTAD, sufficient material to enable the Group of Twenty-Four to recommend specific operational steps in time for the Toronto meetings. They expressed keen interest in promoting the participation of developing countries in international competitive bidding.

36. Ministers expressed gratitude to the Government and people of Finland for their hospitality; they appreciated, in particular, the warm welcome and efficient arrangements for the meeting.