INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

TWENTY-FIFTH MEETING OF MINISTERS

COMMUNIQUÉ

September 3, 1982
Toronto, Canada

1. Ministers of the Group of Twenty-Four on International Monetary Affairs held their twenty-fifth meeting in Toronto, Canada on September 3, 1982. Mr. C. A. Jacelon, Minister, Ministry of Finance and Planning, Trinidad and Tobago, was in the chair, with Mr. Aly Mohamed Negm, Deputy Governor, Central Bank of Egypt, and Mr. P. Mukherjee, Minister of Finance, 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. Jean Ripert, Director-General for Development and International Economic Coop-eration, United Nations, Mr. Roger Lawrence, Director, Division of Money, Finance and Development, UNCTAD, Mr. C. Sassanpour, OPEC, Mr. U. E. Kastoft, Executive Secretary, Development Commit-tee, 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 reviewed the performance of the world economy in recent years and noted with concern the near stagnation of economic activity in industrial countries, the continuing sharp decline in growth rates in developing countries, and the marked deceleration in the growth of world trade, from 6.5 percent in 1979 to 2 percent in 1980, and the virtual stagnation of world trade in 1981.

3. Ministers noted that industrial countries have made some progress in the struggle against inflation but viewed with serious concern the severe and prolonged slowdown in real economic growth of these countries which averaged 1.25 percent during 1980-81, compared with 4 percent through 1977-79; unemployment has reached unprecedentedly high levels in the post-war period, and there is substantial under-utilization of resources in the industrial world.

4. Ministers emphasized that economic conditions in the industrial countries have a vital bearing on the prospects of developing countries. In the context of the continuing stagnation in the major industrial countries, the growth prospects for developing countries look grim. Already the growth rate of non-oil developing countries has fallen below 2.5 percent, which is less than half the average growth rate in 1976-1978. They noted that the 1981-1982 average economic growth rates in these countries have been the lowest in several decades.

5. Ministers noted that prices of most primary products have declined sharply, a consequence of

the weak external demand for these commodities resulting from the continued recession in industrial countries; the terms of trade of non-oil developing countries were deteriorating for the fourth consecutive year in 1982, touching the lowest level since the l950s. They observed further that, despite reasonable success in adjustment policies and some curtailment of the volume of imports by these countries, the reduction of their export earnings and high interest rates have led to persistently high current account deficits, which reached $100 billion in 1981 and are expected to remain close to these high levels in 1982. In addition, Ministers stressed that the prevailing high interest rates have added enormously to the debt-service burden of developing countries. Increasing difficulties of access to the capital markets have made the task of financing these deficits extremely onerous for these economies. Ministers noted that even the oil-exporting developing countries were not immune from these developments. In fact, the combined current-account surplus of these countries has shrunk sharply from $115 billion in 1980 to an estimated $15 billion in 1982.

6. Ministers warned that unless the adverse trends in the international economy are reversed, the whole international system of trade and finance could collapse. It is therefore imperative to formulate a world recovery program to stimulate non-inflationary growth in industrial as well as developing countries. The major elements of this recovery program should be a concerted effort on the part of the industrial countries to bring about a revival of their economies through an appropriate mix of policies, a removal of protectionist barriers to international trade, a reduction of military expenditure and a rechanneling of such resources to increased ODA and other flows. They also urged that international financial institutions, such as the Fund and World Bank, play a larger catalytic role in assisting the process of recovery in developing countries through such measures as a substantial increase in structural adjust-ment and program lending, expanded balance-of-payments support with low conditionality, and the institution of a medium-term facility on concessional terms. They also noted that the arrangement recently adopted by OECD countries on minimum interest rates on export credits can further inhibit trade in capital goods and aggravate the financial burden on developing countries. Ministers called for the exemption of imports of developing countries financed by export credits from the minimum interest-rate provisions of this arrangement.

7. Ministers assigned particular importance to the effective and efficient functioning of the adjustment process. In this connection, they stressed the importance of the Fund's exercising effective surveillance over all its members. They emphasized that the Fund's surveillance should move towards a greater degree of symmetry with respect to the adjustment process, especially between members that use Fund resources and those that do not, and between developing countries and major industrial countries. Ministers called for an early re-examination of the existing principles of surveillance with a view to updating them and making them more effective.

8. Ministers deplored the hardening of conditionality evident in the increasing resort to preconditions and the current tendency for the Fund to shift from three-year programs to one-year programs. They regretted the heavy emphasis on domestic demand management in the application of conditionality and felt that the mechanistic and narrow monitoring of performance criteria did scant justice to the structural nature of the problems faced by developing countries. They urged that in reviewing performance and in prescribing adjustment measures, the Fund should pay adequate attention to the circumstances and factors beyond the control of countries,

and should make a case--by-case assessment of each country based on the concept of a sustainable balance-of-payments position over the medium term. In this connection, they emphasized the limited nature of the current annual reviews made by the Fund on the impact of Fund conditionality and urged that such studies cover a wider range of country experience and a longer time horizon.

9. Ministers emphasized that there is no effective substitute for a straightforward and sufficient increase in quotas to enable the Fund to discharge its due responsibilities commensurate with members' needs. In this context, they observed that recent events have demonstrated the inadequacies that are becoming increasingly apparent in the ability of the international commercial banking system to deal with problems of balance of payments support and development financing. They therefore called for at least a doubling of quotas, which would partly restore the ratio of quotas to world imports to levels consistent with members' financing needs in the 1980s, thereby restoring the role of quotas as the primary source of Fund financing, to be supplemented when necessary by borrowing.

10. Ministers urged a large element of equi-proportional increases while reaffirming that, in the distribution of quotas, each member's relative position in the world economy should be fairly reflected and that due emphasis should be given to the improvement of the voting power of developing countries in the Fund. This could be accomplished through an increase to 45 percent in the share of quotas held by developing countries. They again called for an increase in basic votes. Regarding the distribution of quotas, Ministers stressed that economic groups of countries as well as regions should be adequately reflected, and that no developing country's quota share should be reduced. Ministers rejected the attempt to reduce the weight of the variability coefficient in the formulas governing the determination of quotas. They recommended that the Committee of the Whole complete its work in time for the Spring 1983 meeting of the Interim Committee.

11. The Ministers expressed their disappointment that no consensus has yet been reached on an allocation of SDRs during the present basic period. They felt that the trend of a deterioration in the level of international liquidity by 9.4 percent in the six months to June 30, 1982 had further strengthened the case for an allocation of SDRs. They also pointed out that the argument that an SDR allocation would exert inflationary pressures is wrong both on theoretical and empirical grounds. They emphasized that, in the difficult world economic environment, an allocation would promote economic recovery, and ease some of the burdens on non-oil developing countries, in particular those without capital market access. They were also of the view that this would lead to reserve diversification and a better balance between conditional and unconditional liquidity. They reiterated their call for the establishment of a direct link between SDR allocation and development finance.

12. Ministers underlined that the high nominal and real interest rates resulting from the anti-inflationary policy mix of financial center countries were having an adverse effect on the current-account balance of developing countries. They recommended that this problem should be studied by the Fund with a view to expanding the compensatory financing facility to cover these increased costs, and to presenting a report at the Spring 1983 meeting of the Interim Committee.

13. Ministers expressed concern at the failure to maintain the commitment authority of IDA-VI at the level originally planned and stressed the importance of IDA remaining a sound and effective mechanism for multilateral collaboration in the development arena. Ministers noted with satisfaction that despite the regrettable failure of a major donor country to meet its commitment, several countries have indicated their willingness to respond positively towards funding IDA-VI, and, in this connection, they wished to emphasize that IDA-VI should remain a three-year program as originally planned. They accordingly urged all donors to release their third installment and stressed that the released resources in 1983 should be fully committed.

14. Ministers emphasized that the 1984 should represent an increase in real resources over fiscal year 1983 as envisaged in the IDA-VI agreement, and that individual donor countries should have the option of deciding whether this should be done in the form of a special account for fiscal year 1984.

15. Ministers urged that the IDA-VII negotiations should be completed as early as practicable, to ensure that no disruptions develop in IDA commitment authority, given the need for legislative action in donor countries. They stressed in this context, the importance of maintaining the integrity of IDA operations and avoiding the repetition of the regrettable experience of IDA-VI. They underlined the need to expand IDA-VII lending substantially in real terms, bearing in mind the increased financial requirements arising from wider coverage and the deterioration in the international economic situation.

16. Ministers reviewed the various proposals on financing with commercial banks and noted the efforts made to secure additional resources through co-financing. They urged the continuation of efforts to explore ways and means of co-financing by closer cooperation with sources of official assistance and export credit institutions. However, while noting the efforts being made to obtain additional resources through co-financing with private sources and the proposals being by the management in this regard, Ministers underlined the need to preserve the character of the World Bank as the premier development institution and cautioned against the risks involved in these proposals. Accordingly, Ministers pointed out that co-financing should not be a substitute for the transfer of resources through multilateral institutions. They affirmed that such arrangements should be judged on the criteria of additionality of resources and improved terms and conditions of such resources. They stressed that each country determine for itself the suitability of co-financing and the terms associated with it. Ministers therefore cautioned against co-financing becoming a precondition for lending by the World Bank.

17. Ministers reviewed the World Bank's proposed lending program and stressed the need for a significant increase in the level of World Bank lending in order to maintain a minimum real rate of growth of 5 percent in view of the enlarged requirements, and urged that immediate steps be taken to address the medium-term capital needs of the World Bank and therefore its lending capacity.

18. In order to augment the resources of the World Bank for immediate purposes, Ministers urged member countries to accelerate their subscriptions to the recent General Capital Increase and urged those countries in a position to do so to release the local currency portions of their paid-in shares for use in lending operations. Ministers noted the newly introduced front-end fee,

borrowing practices and lending rate policy of the World Bank. They urged that the front-end fee be phased out as soon as circumstances permit. They called for a comprehensive study of the new borrowing and lending policies, and of the impact of these measures on borrowing countries. The study should be presented at the Spring 1983 meeting of the Development Committee.

19. Ministers emphasized the important role being played by regional development banks and reiterated the need for member countries to honor their pledge of concessional assistance originally made to enable effective implementation of the lending program of these institutions. Ministers accordingly called for an increase in the flow of resources in real terms to enable these institutions to effectively perform their role as development agencies. They welcomed in this context the proposals of regional banks to further expand their capital resources and urged member countries to contribute to such an expanded capital base. 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 again recommended alternative approaches, such as the one based on maturation, which would allow those institutions to play their proper role while recognizing the particular circumstances of countries at different stages of development. Ministers also recognized that the concept of maturation has received significant support since the meetings in Helsinki.

20. Ministers emphasized the importance of a substantial expansion in lending for the development of energy resources of developing countries and the alleviation of the impact of high energy costs in development programs. They accordingly welcomed the trend towards the expansion of the World Bank's energy program but cautioned against such an expansion being carried out at the expense of other sectors that are also of critical importance to - developing countries. Ministers felt that additionality of resources should be the criterion for the effectiveness of such a program. In this context, the importance of the recent recommendations of the U.N. Interim Committee on new and renewable of energy was recognized. Ministers called upon the World Bank to continue discussions on the optimal means of financing an expanded energy program including both the possibility of an energy affiliate and the idea of a pool or trust fund for energy lending. Ministers recommended that the World Bank report to the Development Committee at its Spring 1983 meeting.

21. Ministers welcomed the proposed increase in the proportion of IDA resources allocated to Sub-Saharan African countries and stressed the need for a doubling of aid in real terms in order to help over-come the development crisis there, and called for an adequate donor response in the context of the uncertainties surrounding IDA-VI. Ministers recommended that the World Bank work with individual countries to draw up specific programs suited to the particular circumstances of countries, keeping in mind that the responsibility for development policies and priorities rests with the country concerned and that aid should not be made conditional on the adoption of a specific development.

22. Ministers urged that the international financial community pay particular attention to small island and landlocked developing states, having regard to their limited size, their openness, and their vulnerability to the vagaries of the international economic environment. They agreed that there is an urgent need for immediate action to review the mechanisms and format of

conditionality and the nature and content of adjustment prescriptions requested by multilateral financing institutions in small island and landlocked states. Ministers recommended that a study on this topic be undertaken.

23. Ministers reviewed actions taken so far by the Fund and the World Bank on the G-24 Program for Immediate Action. They urged early positive action on the main elements of the Program, in parti-cular regular annual allocations of SDRs, a direct link between SDR allocations and development finance, and the establishment of a medium-term balance-of-payments facility with low conditionality. Ministers also called attention to the recommendations of the Group of Twenty-Four for a fundamental reform of the international monetary system contained in the document entitled "Outline for a Program of Action on International Monetary Reform." They felt that sufficient time had elapsed since the Jamaica Agreement to assess the results achieved by it and to chart out the future course of action. They were of the view that the prevalence of exchange rate instability, substantial underutilization of resources in the world economy, and the stagnation of world trade demonstrate the malfunctioning of the present international monetary system. They called for a resumption of negotiations for a fundamental reform of the international monetary system to achieve the agreed objectives of the international community. Ministers underlined the need for the inclusion on the agendas of both the Interim and Development Committees of consideration of the recommendations in the Outline for a Program of Action on International Monetary Reform as a central part of the world recovery program.

24. Ministers emphasized the importance usefulness and potential of the Development Committee as a forum for formulating measures and programs to address the critical development issues facing the world economy, in particular the non-oil developing countries. They pointed out that the performance of the Development Committee should be improved and therefore called for the Development Committee to set up a working party to examine ways and means of improving its effectiveness. They also urged the Committee to forge the necessary commitment and political will to overcome the economic crisis of the 1980s.

25. Ministers viewed UNCTAD VI as an opportunity for fruitful negotiations on concerted measures for a world recovery program that would include measures of immediate benefit to developing countries in the fields of trade and finance, along the lines set out above. These would contribute to the achievement of the longer-run objectives of the Conference.

26. Ministers noted the efforts under way in UNCTAD and elsewhere to facilitate the establishment of export financing arrangements, and called upon concerned organizations to strengthen clearing arrangements through the enlargement of settlement periods, greater coverage of eligible items, larger membership and the provision of additional credit, while they recognized the constraints that at present inhibit more extensive use of the schemes. Ministers called upon regional development banks, in particular the Asian Development Bank, the African Development Bank, and the Inter-American Development Bank, to give serious consideration to the establishment or intensification of arrangements designed to refinance the credits extended by their members, and urged all regional development banks to examine the requirements for the further evolution of existing regional arrangements for balance-of-payments support. Ministers saw merit in exploring the creation of new credit arrangements in other developing areas.

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