INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

TWENTY-SIXTH MEETING OF MINISTERS

COMMUNIQUÉ

Washington, D.C.
February 9, 1983

1. Ministers of the Group of Twenty-Four on International Monetary Affairs held their Twenty-Sixth meeting in Washington, D.C., on February 9, 1983. Mr. M. S. Hamed, Minister of Finance, Egypt, was in the chair, with Mr. Manmohan Singh, Governor, Reserve Bank of India, and Mr. Julio Gonzalez Del Solar, President, Banco Central de la Republica, Argentina, as Vice-Chairmen. The meeting was attended by Mr. Farooq Sobhan, New York Chairman, Group of 77, Mr. J. de Larosière, Managing Director, International Monetary Fund, Mr. A. W. Clausen, President, The World Bank, Mr. Shuaib U. Yolab, Under-Secretary General for International Economic and Social Affairs, United Nations, Mr. Roger Lawrence, Director, Division of Money, Finance and Development, UNCTAD, Mr. Sidney Dell, Project Director, UNDP/UNCTAD, Mr. H. E. Kastoft, Executive Secretary, Development Committee, Mr. Mohammed Abal-Khail, Minister of Finance and National Economy, Saudi Arabia, and Mr. Faik Ali Abdul Rasool, Director General, Central Bank of Iraq. Mr. Ming Shang, Advisor at Ministerial level, People's Bank of China, attended as invitee.

2. Ministers expressed deep concern about the length and severity of the current recession and the absence of any significant turnaround in world economic activity. They noted that the past year was characterized by depressed output, rising unemployment levels, a sharp decline in commodity prices, and increasing protectionist tendencies, which have resulted in the contraction of world trade levels and about a 4 percent decline in the level of non-oil developing countries' imports and persistent and widespread external payments problems. Growth rates of the non-oil developing countries have declined from 5 percent in the late 1970, to an estimated 1.8 percent in 1982, implying an absolute decline in per capita income. Over the past five years the terms of trade of non-oil developing countries have suffered a cumulative deterioration of over 20 percent and in the case of low-income countries, of as much as 40 percent. At the same time debt-service payments as a proportion of export earnings rose to 24 percent in 1982, compared with 17 percent In 1980. These difficulties have been compounded by the inadequacy of financial flows, both concessional and non-concessional.

3. Ministers observed that there has been a significant decline in inflation and some reduction in interest rates in the major industrial countries, providing them with an opportunity to stimulate growth in their economies. They stressed that such a stimulus should be combined with measures to improve the access of developing countries' exports to the markets of developed countries and to increase the flow of financial resources to developing countries on reasonable terms. Unless this is done, the growth prospects of developing countries will remain bleak and their debt and balance-of-payments difficulties will be aggravated. They therefore stressed the urgency of a world recovery program encompassing these various aspects to avert the crisis now facing the

International economy. In this context the Outline for a Program of Action on Inter-national Monetary Reform could be an important element of such a recovery program.

4. Ministers expressed doubts about the effective and successful working of the international adjustment process. They observed that major adjust-ment efforts are now underway in many developing countries but that the continuing deterioration of the international economic environment is making this task extremely difficult. They noted that concessional flows of assistance had remained stagnant, that official financing had been both inadequate and insufficiently flexible, and that there has been a decline in non-concessional flows. They affirmed that the international financial institutions have a critical role to play in channeling larger volumes of financial resources to the developing countries on appropriate terms. This is in the common interest of developed and developing coun-tries and is a necessary component of any recovery program. Accordingly, they urged member countries to provide adequate support to these institutions to enable them to fulfill their objectives.

5. Ministers urged member countries to ensure that the International Monetary Fund is sufficiently strengthened to perform its functions at this difficult time. Towards this end, Ministers reaffirmed their call for a substantial increase in quotas to help restore the ratio of quotas to world imports to former levels. This is necessary if quotas are to remain the principal source of Fund resources and if the Fund's financing ability is to be consistent with members' financing needs in the 1980s. They expressed concern that those countries which depend most on Fund resources for balance-of-payments support and which have least access to borrowing from other sources would suffer a continuous erosion in their quota shares on the basis of present quota formulas and calculations. They urged therefore that there should be at least a doubling of quotas and, furthermore, they called for a large element of equi-proportional increase, while also giving adequate consideration to the relative position of members in the world economy.

6. Ministers emphasized that in the current quota review attention should be given to improving the voting power of developing countries in the decision-making process of the Fund. In this connection they emphasized the urgency of a comprehensive re-examination of the economic criteria and the weights to be attached to them in quota formulas so as to reflect the financing needs of members. This examination should be an essential element of the Ninth Review. They are also of the view that the basic votes, which have remained unaltered since the inception of the Fund, should be appropriately raised. With these proposed revisions, which are long overdue, the Ministers were convinced that the quota share of developing countries should go up to 43 percent. They urged that member countries that have not availed themselves of the increase in quotas allocated under the Seventh General Review should be allowed to do so. Due consideration should also be given to other developing countries which for special reasons were not able to take up the quota increase offered them in the past. In addition, Ministers expressed the need for a special adjustment in quotas of small countries, including small island economies, having regard to their size, openness and limited access to capital markets and their narrow productive and export base.

7. Ministers called for an acceleration in the timetable for the completion of the Eighth General Review with a view to having the new quotas come into effect in late 1983. They were of the view that present financial and economic conditions make it necessary to advance the Ninth

Review of Quotas.

8. Ministers were of the view that payment of the 25 percent share of the quota increase should be made in SDRs or other reserve assets. They were concerned, however, that many members would face acute difficulties in meeting this requirement. Indeed, as many as 90 member countries do not hold adequate SDRs to make their payment of 25 percent of the likely quota increase. They noted that the Fund would make appropriate arrange-ments to assist member countries with insufficient reserve assets to meet this requirement. They were of the view that an SDR allocation would help greatly in this regard.

9. Ministers expressed regret that no SDR allocations have so far been made in the Fourth Basic Period. This has contributed to the deterioration in the level of international liquidity and has given wrong signals to the international community regarding the commitment to make SDRs the principal reserve asset. They emphasized the urgency of renewing allocations of SDRs as a measure which would contribute to worldwide economic recovery, ease some of the problems of developing countries, lead to reserve diversification and also improve the balance between conditional and unconditional liquidity.

10. Ministers therefore called for a substantial allocation of SDRs in the Fourth Basic Period noting that a minimum annual allocation of SDR 12 billion would be needed to restore the ratio of SDRs to world reserves to the 1972 level of 8 percent. They are of the view that an SDR allocation on this scale would not be inflationary. Furthermore, an allocation of SDRs would support the objective of making the SDR the principal reserve asset in the international monetary system. They reiterated the call for the establishment of a link between SDR allocation and development finance.

11. Ministers urged that the present policy on overall access in terms of multiples of quota should continue after the quota increase consequent on the Eighth General Review. This is essential if the Fund is to be able to meet the much larger needs for financing. They noted that due to worldwide inflation, the real value of quotas and consequently of access has been eroded and will continue to erode over time. They underlined the importance of adequate access to Fund resources which is required to promote effective and durable adjustment in the context of worldwide inflation, deterioration in the terms of trade of developing countries, continuing imbalance in external positions, and uncertainty about lending by commercial banks. They emphasized that the multiples of access approved by the Interim Committee should be maintained.

12. Ministers noted that the source of the imbalances in recent years has been mainly structural, requiring adjustment financing over a longer period. In this context, they emphasized the importance of the Extended Fund Facility. They expressed regret that a large number of medium-term programs have had to be interrupted and cautioned against the current tendency for the Fund to shift from three-year programs to one-year programs. They urged that in the implementation of adjustment programs conditionality should be appropriately designed to take account of the causes of imbalances, and emphasized that adjustment programs should be framed in the context of growth-oriented policies. In this context, they urged that the guidelines on conditionality should be kept under review in the light of the evolving world economic situation.

Ministers also pointed out that adjustment has become difficult because of exogenous factors and the prescriptions of adjustment, and the performance review should pay adequate attention to circumstances and factors that are beyond the control of countries. They stressed the importance of improving the Compensatory Financing Facility, both in terms of access and conditionality.

13. Ministers noted the proposals for expanding the size and coverage of the General Arrangements to Borrow. While recognizing that the expanded resources of the GAB could be available to the Fund under certain circumstances to meet the requirements of nonparticipants, they were concerned about various aspects of these proposals. They were strongly of the view that the expansion of the GAB should not be regarded as an alternative to expanding the size of the Fund to required levels. They were of the view that the operation of an expanded GAB could adversely affect the independence and decision-making authority of the Fund. Furthermore, the preconditions for activation would make the availability of resources under the GAB highly uncertain. They reaffirmed the view that an expansion in quotas should remain the principal source of Fund financing.

14. Ministers believed, in summary, that a multiplicity of coordinated and simultaneous measures would be necessary to meet the urgent financial needs of developing countries. They should include:

(i) a doubling of quotas;
(ii) an early allocation of SDRs in the Fourth Basic Period;
(iii) an expansion of the size and coverage of the GAB; and
(iv) the establishment of a medium-term balance of payments support facility.

l5. Ministers stressed that, in order to overcome the world economic crisis, it was essential to tackle problems in the areas of finance and trade in an integrated manner and with due regard to the global character of the crisis and the growing interdependence of economies. UNCTAD VI provides an opportunity to formulate a broad and consistent set of measures to bring about recovery in the world economy and to promote a reordering of international economic relationships.

16. The next meeting of the Group of Twenty-Four will be held in Washington, D.C. from April 26-28, 1983 immediately preceding the Development Committee meeting which is schedule for April 29, 1983. Deputies will meet on April 26 and 27, and Ministers on April 28.