INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

TWENTY-EIGHTH MEETING OF MINISTERS

COMMUNIQUÉ

Washington, D.C.
September 24, 1983

1. Ministers of the Group of Twenty-Four on International Monetary Affairs held their Twenty-Eighth meeting in Washington, D.C., on September 24, 1983. Mr. Salah Hamed, Minister of Finance, Egypt, was in the chair, with Mr. Manmohan Singh, Governor, Reserve Bank of India, and Mr. Jorge Wehbe, Minister of Economy, 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. Jean Ripert, Director-General for Economic Development and International Cooperation, United Nations, Mr. Gamani Corea, Secretary--General, UNCTAD, Mr. C. A. Brown, Deputy Administrator, UNDP, Mr. M. V. Samii, Head, International Money and Finance Unit, OPEC, Mr. A. S. Al-Ani, Assistant Director-General, OPEC Fund, Mr. Hassan Al-Najafi, Governor, Central Bank of Iraq, and Mr. Hamad Al-Sayari, Acting Governor, Saudi Arabian Monetary Agency (SAMA). Mr. Lu Peijian, Governor, People's Bank of China, attended as invitee.

2. The meeting of Ministers was preceded by the Thirty-Ninth meeting of Deputies of the Group of Twenty-Four, with Mr. Said El-Naggar, Egypt, as Chairman, and Mr. H. N. Ray, India, and Mr. Alberto Sola, Argentina, as Vice-Chairmen.

3. Ministers reviewed the world economic situation and noted signs of recovery in some industrial countries. The rate of inflation has abated, and interest rates have fallen from the peak levels that had been attained earlier, although they continue to remain excessively high in real terms. In some countries a number of indicators have started to change direction, pointing to the possibility of an overall upturn. However, Ministers cautioned that it is too early to conclude that these herald a strong and durable recovery. In their view, the persistence of recession and stagnation in many parts of the world might well frustrate the incipient recovery. In this context they noted with great concern that world trade contracted in 1982 and in the first half of 1983. In the absence of special supportive measures, recovery in the industrial countries is not likely to be adequately transmitted to developing countries. In fact, the situation in developing countries continues to be a cause for great concern. While most countries have been adversely affected by the recession, the burden has fallen with particular severity on all developing countries, including the oil -exporting countries. They have been forced to adjust to the adverse external environment at heavy social, economic and political cost. Growth rates have been on the decline for four years in succession, causing a decline in per capita income, particularly in the low income countries. Total outstanding debt of non-oil developing countries at the end of 1982 amounted to over $600

billion and the annual debt-service burden in the same year escalated to more than $100 billion, or over 20 percent of exports. In many cases the ratio of debt service to exports is well above 50 percent. The prices of commodities, on the exports of which a large number of them still depend, plummeted in real terms to their lowest level in 45 years, causing a sharp decline in export receipts and a serious deterioration in terms of trade. This has been exacerbated by protectionist measures against exports from developing countries. Their deficit en current account is unduly large in relation to their gross domestic product despite substantial and disruptive cuts in imports.

4. Ministers reiterated the urgent need for a program of world recovery on an emergency basis which promotes concurrent recovery in the developed and developing countries. This should include, inter alia, a greater measure of coordination among national monetary, fiscal, and trade policies, particularly of the major industrial countries. They stressed that, unless special efforts are made to enable developing countries to participate in the expansion of world output and trade, the momentum of recovery cannot be sustained.

5. Ministers emphasized that in the present difficult world economic situation, it is of primary importance that the International Monetary Fund be further strengthened to play a more active role in the adjustment process by providing adequate resources to it. Ministers stressed the importance of adequate access by members to Fund resources to promote effective and durable adjustment in view of the inadequate increase in quotas under the Eighth General Review and the need to safeguard the access of members in real terms, they urged the Fund to maintain the present multiples of access to Fund facilities after the quota increase becomes effective. Full cognizance should also be taken of the fact that the present quotas have suffered considerable erosion due to inflation. In this context, they urged that consideration be given to the advancement of the Ninth Quota Review. They also emphasized that the Fund should at the present juncture improve its financing role through, among other measures, a less stringent conditionality. Ministers urged all Fund members to take the necessary steps so that the Eighth Quota Review becomes effective according to the present time schedule. They also urged that the Fund be enabled urgently to finalize borrowing arrangements to cover the commitment gap of SDR 6 billion projected for 1983, and in this connection expressed appreciation of Saudi Arabia's offer to participate in covering this gap.

6. Ministers emphasized the need for expansion and liberalization of the Compensatory Financing Facility to cover, inter alia, deteriora-tion in the terms of trade and the increase in interest costs. They urged that financing should be related to the magnitude of export short-falls rather than to quotas and that the existent low conditionality should be preserved.

7. Ministers noted the decline in non-gold reserves through 1982 and stressed the need for supplementing international liquidity through a substantial allocation of SDRs in the Fourth Basic Period. They expressed concern over the acute stringency in the reserve position of a large number of developing countries, which has seriously impaired their import capacity with adverse consequences for their investment and growth. In their view, an annual allocation of SDR 15 billion would assist economic recovery. Furthermore, it would help diversify reserves and improve the balance between conditional and unconditional liquidity.

8. Ministers underscored the importance and the need for flexibility in the activation of the

enlarged General Arrangements to Borrow and other similar arrangements. Possibilities for further borrowing from official sources should also be explored. Should borrowing from official sources prove inadequate, the Fund may resort to borrowing in the capital markets.

9. Ministers underlined the importance they attach to the level of commitments by the World Bank, which should be adequate to meet additional demands on Bank resources arising from the impact of the global recession, increased country coverage, the requirements of the energy sector and the need for structural adjustment. They noted that the planned level of commitment for the period FY 1984-87 will result in a significant decline in net disbursements and net transfers after FY 1985. In order to achieve an increase in net disbursements, the level of commitments will have to increase at a rate which is at least 6.5 percent per annum in real terms. In this context they urged that immediate steps be taken to effect a selective capital increase pursuant to and in line with the Eighth General Review of Quotas in the Fund. Ministers further emphasized that steps should be initiated to effect a general capital increase by 1986, which should be adequate to meet the long-term requirements of the developing countries.

10. Ministers noted the effort to accelerate disbursements through the Special Action Program but were concerned about the lack of additionality and the stringent conditions attached to its utilization. They further stressed that conditions imposed by the Fund should not impede the speedy
absorption of funds available from this program.

11. Ministers reiterated their concern over proposals for graduation from IBRD and other similar institutions and urged that such graduation be replaced by alternative approaches so that multilateral development institutions play their proper role.

l2. Ministers stressed the importance of official development assistance to low-income countries and urged that developed countries that have not yet reached the internationally agreed target of 0.7 percent of GNP should reach it by 1985 and in any case not later than the second half of the decade. They noted IDA's solid achievements since its establishment and the crucial role it has played in the development of low-income countries. They therefore urged that all necessary legislative measures be undertaken to release the remaining contributions for IDA VI and complete arrangements for FY 1984.

13. Ministers noted further that negotiations for the Seventh Replenishment are currently in progress, and urged that these negotiations be concluded early so that IDA VII could become effective no later than July 1, 1984. In this context, they underlined the need to expand IDA VII lending substantially in real terms over IDA VI as originally negotiated. To meet the requirements of the low-income countries, Ministers stressed that the size of IDA VII should in no case fall below $16 billion.

l4. Ministers noted with concern the declining support for the regional development banks and other multilateral development institutions.

15. Ministers recognized the acute development problems facing Sub-Saharan Africa. In their view, only a substantial increase in official development assistance in real terms during the

present decade can enable this region to cope with the present difficult situation. Ministers urged that official development assistance to Sub-Saharan Africa be doubled by 1985 over the level for the period 1976-80. In this connection, they noted the progress made by the World Bank in the implementation of the accelerated development of Sub-Saharan Africa. In view, however, of the extremely difficult economic situation in these countries they urged that all donors in general, and the World Bank in particular, should intensify their efforts in this respect.

16. Ministers noted with concern the lag in the implementation of the Substantial New Program of Action of the U.N. Conference On Least Developed Countries held in Paris in September 1981. In particular, they urged that donor countries should, within the overall target of 0.7 percent, allocate O.15 percent of their GNP to these countries.

17. Ministers reiterated their call on 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. In this context, they noted with concern the lack of progress in these areas.

l8. Ministers expressed concern that restrictions on imports from developing countries, which have been markedly intensified in recent years, act as a major obstacle to economic recovery. They called upon Governments to roll back present trade restrictions, urging in particular that governments of industrial countries take measures to improve access to their markets for the exports of developing countries.

19. Ministers stressed the great importance they attach to the work of the Task Force on Concessional Flows and expressed the hope that it concludes its work as early as possible.

20. Ministers expressed support for the continuation of the Development Committee as an important political forum for promoting consensus on issues related to the transfer of real resources. They also support the maintenance of its present status as a joint Bank-Fund Committee. They urged the Bank and the Fund to continue their efforts to improve the effectiveness of the Committee.

2l. Ministers discussed the urgent need for a reform of the interna-tional monetary and financial system. In their view, there should be no delay in moving towards a thorough-going reform of the international monetary and financial system which would secure the objectives of exchange and monetary stability, the adequacy of resources for investment and the special concerns of the developing countries. Ministers called for the convening of an international monetary conference as an important and essential step in this direction.

22. Ministers agreed to hold their next meeting on the occasion of the spring sessions of the Interim and Development Committees.