INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

TWENTY-NINTH MEETING OF MINISTERS

COMMUNIQUÉ

April 11, 1984

1. Ministers of the Group of Twenty-Four on International Monetary Affairs held their Twenty-Ninth meeting in Washington, D.C., on April 11, 1984. Mr. Pranab Kumar Mukherjee, Minister of Finance, India, was in the Chair, with Mr. Bernardo Grinspun, Minister of Economy, Argentina, and Mr. Tadesse Gebre Kidan, Governor, National Bank of Ethiopia, as Vice-Chairmen. The meeting was attended by Mr. J. de Larosière,, Managing Director, International Monetary Fund, Mr. A. W. Clausen, President, The World Bank, Mr. H. E. Kastoft, Executive Secretary, Development Committee, Mr. Shuaib U. Yolah, Under-Secretary General, United Nations, Mr. Jan Pronk, Deputy Secretary General, UNCTAD, Mr. Roger Lawrence, Director, Division for Money, Finance and Development, UNDP/UNCTAD, Mr. Jorge Efren Dominguez, New York Acting Chairman, Group of 77, Mr. Ali K. Hussain, OPEC, Mr. Y. S. Abdulai, OPEC Fund, Mr. Hassan Al-Najafi, Governor, Central Bank of Iraq, and Mr. Osama I. Faquih, Deputy Minister of Finance, Saudi Arabia. Mrs. Qiu Qing, Vice President, People's Bank of China, attended as invitee.

2. The meeting of Ministers was preceded on April 9-10, by the Fortieth Meeting of Deputies of the Group of Twenty-Four with Mr. R. N. Kalhotra, India, as Chairman, and Mr. E. A. Zalduendo, Argentina, and Mr. Tsehai Alemayehu, Ethiopia, as Vice-Chairmen.

3. Ministers reviewed the world economic situation and noted that the world economy showed signs of recovery in 1983. The growth of world output, which had been declining since 1979 and had virtually ceased in 1982, recovered to a modest rate of 2 percent in 1983; world trade remained sluggish, rising by only 2 percent after a decline of 2-1/2 percent in 1982. There was further intensification of protectionist measures in most industrial countries, to the detriment of the international trading system.

4. Ministers noted that though industrial countries, as a group, registered a growth of 2-1/4 percent, strong growth was concentrated mainly in North America, with many industrial countries in other regions showing only weak recovery. Their average inflation rate declined below 5 percent in 1983. Real interest rates continued to be excessively high. Unemployment remained at extremely high levels, though a few industrial countries registered some progress in reducing it. Sustainability of the present pattern of exchange rates is in serious doubt, particularly, the continued strength of the U.S. dollar despite increasing current-account deficits of the United States. High and persistent fiscal deficits and excessive interest rates in the United States continue to be matters of wide concern. These persisting problems, especially the recent disturbing upward trend in interest rates, raise doubts about the durability of recovery.

5. Ministers expressed concern that economic and financial conditions in developing countries

remain severely constrained. They noted that so far the transmission of the gains of recovery in the industrial world to developing countries has been extremely weak. These countries, as a group, recorded only a small growth of 0.9 percent in 1983, after the virtual stagnation of 1982. The development process has suffered serious disruption and per capita incomes in a large number of developing countries, particularly in sub-Saharan Africa and Latin America, declined for the third year in succession. The volume of developing country exports which had declined by over 7 percent in 1982, recovered by only 1 percent in 1983. The terms of trade of these countries declined by 3.1 percent. In the case of non-oil developing countries, terms of trade improved by about 1 percent in 1983, but their accumulated loss in terms of trade since 1977 was still as high as 18 percent. Conditions of external-market access for exports of developing countries deteriorated, resulting in uncertainty about their export projects and investments. These developments inhibited improvement in their balance of payments and impaired the capacity of many countries to service their debt.

6. Ministers reiterated their serious concern at the continuing decline in the economies of sub-Saharan Africa. They re-emphasized that only a substantial increase in official development assistance in real terms during the present decade can enable this region to cope with its very difficult situation. They urged that ODA to the region be doubled by 1985 over the level for the period 1976-80. In this connection, they called for the intensification of the World Bank program for the accelerated development of the region, and urged all donors to embark on a joint action to rescue the region from the economic crisis that confronts it.

7. Ministers noted that as a result of the policies followed by some industrial countries the burden of adjustment continues to fall dispro-portionately on developing countries. The world recession depressed their commodity prices and export earnings. The large decline in their combined current-account deficit, which has occurred since 1981, resulted mainly from continuing compression of imports with adverse impact on utilization of capacities and developmental investment. The harsh adjustment undertaken by developing countries has been aggravated by high debt-service burdens and a severe squeeze on liquidity. In some countries adjustment efforts have reached the limits of social and political tolerance. Ministers emphasized that it was imperative that the severe strains of adjustment be relieved so as to make it more orderly and to revive the momentum of development.

8. Ministers pointed out that the debt problem of many developing countries continues to be serious. There was a substantial net transfer of resources from developing countries in 1983. High interest rates continue to strain debt-servicing capacity while export earnings remain low. They stressed that it was necessary to devise imaginative solutions to the debt problem consistent with the imperatives of growth and orderly adjustment. Debt restructuring where necessary should be on longer-term maturities and on less burdensome terms, taking into account the repaying capacity of the countries concerned and the need for a reasonable level of imports and economic activity.

9. Having regard to the seriousness of the debt problem and of its impact on development prospects. Ministers recommended the establishment of a task force under the aegis of the Development Committee to review the debt problem in relation to the needs of development finance.

10. Ministers urged that industrial countries, especially those with moderate inflation but low levels of economic activity, should now shift the emphasis of their policies so as to simulate their economies and promote a broader based recovery. They called upon industrial countries to roll back protectionist measures, improve access of exports from developing countries, lower interest rates and improve the alignment of exchange rates. They emphasized, in particular, that lowering of fiscal deficits and interest rates in the United States and adjustment of the exchange rate of the dollar to more sustainable levels would have a beneficial impact on the world economy.

11. Ministers reiterated the need for special supportive measures for reviving the growth momentum in developing countries, especially through increased financing including, in particular, concessional flows to low-income countries.

12. Ministers stressed that resources of international financial institutions be further strengthened to enable them to play a more effective role in the adjustment and development process, particularly in view of the sharp reduction in commercial financing and the extremely inadequate liquidity of many developing countries.

13. Ministers expressed concern about the acute stringency in the reserve position of a large number of countries that had severely constrained their import capacity and brought about increasing trade and payments restrictiveness with harmful effects on their investment and growth and on world trade. They noted the stagnation of global reserves in the last three years and stressed the need for supplementing international liquidity through a substantial allocation of SDRs in the Fourth Basic Period.

14. Ministers emphasized that such an allocation would promote economic recovery without being inflationary, ease the serious constraints in the payments position of many countries, promote world trade, help reserve diversification, improve the balance between conditional and unconditional liquidity, reduce dependency on borrowed reserves, and generally support orderly adjustment.

13. Ministers deplored the fact that in spite of a vast majority of Fund membership being in favor of an SDR allocation, no allocation had so far been made in the Fourth Basic Period, thereby giving wrong signals to the international community regarding the commitment to make the SDR the principal reserve asset. They urged member countries that have not so far found it possible to agree on an allocation to urgently reconsider their position so that political consensus for a substantial SDR allocation could be developed in the Interim Committee.

l6. Ministers reiterated their view that an annual allocation of SDR 15 billion in the Fourth Basic Period would be necessary and re-emphasized the need for the establishment of a link between SDR allocations and development finance, a proposal which was all the more justified in the present context.

17. Ministers drew attention to the very significant contribution of IDA to the development of low-income countries through high net transfers, effective utilization of resources and provision of technical assistance.

18. Ministers noted that the Management of the World Bank had estimated that the minimum requirement for the Seventh Replenishment of IDA was $16 billion, and that a large majority of the donor countries had favored a replenishment of $12 billion. Ministers expressed deep disappointment that, in the event, an extremely inadequate Seventh Replenishment of $9 billion had been agreed to. This represents a steep decline, especially in real terms, compared with IDA 6, even though the IDA recipient community has greatly expanded and its needs are more acute. They noted that there was an unallocated gap even to achieve the Replenishment of $9 billion and urged that it be urgently filled. They stressed that the requisite legislative and other formalities be completed so that the Seventh Replenishment becomes effective by July 1, 1984.

19. Ministers observed that the majority of IDA donors, underscoring their concern about the inadequacy of the Seventh Replenishment, had provided the Association's Management with a mandate to raise additional resources by July 1. 1984. Ministers urged the donor countries to arrange for supplementary financing by that date, so that at least $12 billion on IDA terms would be available during the Seventh Replenishment period.

20. Ministers noted that intensification of protectionist measures in most industrial countries had harmed the multilateral trading system and slowed the growth of world trade. They believed that achievement of an open trading system depends crucially on the industrial countries eliminating their protectionist barriers. Ministers emphasized that in promoting a liberalized multilateral trading system, the special and preferential treatment in favor of developing countries recognized by GATT should be maintained and effectively implemented, especially in relation to items of interest to developing countries, such as agriculture, textiles and manufactures. In this context, Ministers underlined the importance of respecting the jurisdiction of GATT and UNCTAD in trade matters.

21. Ministers stressed that multilateral financing should not be linked to conditionality related to trade matters as that would accentuate the present asymmetry prevailing between developed and developing countries.

22. Ministers stressed the crucial importance under current economic conditions of maintaining an adequate level of net disbursements and net transfers by the IBRD in order to meet irreducible requirements of developing countries. In this context, they expressed concern over non-finalization of the Selective Capital Increase (SCI) of the IBRD and urged that it should be implemented without further delay. They expressed concern that the proposed SCI is likely to result in a decline in the shareholding of developing countries as a group and emphasized the need for correcting this decline at the earliest opportunity.

23. Ministers urged that immediate steps should be initiated to implement a General Capital Increase by FY 1986 to meet the long-term development requirements taking into account enlarged coverage, the needs of the energy sector and structural adjustment. Meanwhile, IBRD lending should be expanded on the existing capital base and constraints such as the 'sustainable level of lending' should be applied flexibly.

24. Ministers reiterated their concern over the proposals for graduation from IBRD and other multilateral development banks, and urged that graduation be replaced by alternative approaches

so that these institutions continue to play their proper role.

25. Ministers stressed that a decision on the capital increase of the IFC should be expedited, and underlined that its operations should not be considered a substitute for enhanced IBRD lending, especially in the energy sector.

26. Ministers noted the status report of the World Bank and IFC on investment incentives and performance requirements, and emphasized that such incentives and requirements should serve the host developing country's needs and national interests and cautioned against universal policy prescriptions in this respect.

27. Ministers emphasized that while direct private investment is an instrument for stimulating resource transfers to developing countries, it is not a substitute for other resource flows, including concessional flows, to low income countries.

28. Ministers noted the Report of the Task Force on the Reform of the International Monetary and Financial system presented by the Deputies, and decided to consider it at the next meeting.

29. Ministers reiterated the need for pursuing efforts to launch global negotiations by the General Assembly of the United Nations and for the reform of the international monetary and financial system. In their view, there should be no delay in moving towards a thorough-going reform of the system which would secure the objectives of sustained growth, exchange and monetary stability, adequacy of resources for investment while meeting the special concerns of developing countries. Ministers called for the convening of an international monetary and financial conference as an important and essential step in this direction. They therefore recommended that necessary preparations for such a conference be initiated as early as possible.

30. Ministers agreed to hold their next meeting at a place and on a date to be announced later.