INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

THIRTIETH MEETING OF MINISTERS

COMMUNIQUÉ

Washington, D.C.
September 21, 1984

1. Ministers of the Group of Twenty-Four on International Monetary Affairs held their Thirtieth meeting in Washington, D.C. on September 21, 1984. Mr. Pranab Kumar Mukherjee, Minister of Finance, India, was in the Chair, with Mr. Bernardo Grinspun, Minister of Economy, Argentina, and Mr. A. Tesfaye Dinka, Minister of Finance, 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. Munoz Ledo, New York Chairman, Group of 77, Mr. F. Fischer, Executive Secretary, Development Committee, Mr. Shuaib U. Yolak, Under-Secretary General, United Nations, Mr. S. Abrahamian, Chief, International Monetary Issues and Financial Markets Branch, UNCTAD, Mr. S. Dell, Project Director, UNDP/UNCTAD, Mr. Ali K. Hussain, OPEC, Mr. Y. S. Abdulai, Director-General, OPEC Fund, Mr. Hassan Al-Najafi, Governor, Central Bank of Iraq, and Mr. Hamad S. Al-Sayari, Acting Governor, Saudi Arabian Monetary Agency (SAMA). Mr. Wang Bingqian, State Counselor and Minister of Finance of China attended as invitee.

2. The meeting of Ministers was preceded, on September 19, by the Forty-First Meeting of Deputies of the Group of Twenty-Four, with Mr. R. N. Malhotra, India, as Chairman, and Mr. H. A. Alonso, Argentina, and Mr. Taddesse Gebre Kidan, Ethiopia, as Vice-Chairmen.

3. Ministers reviewed the world economic situation and noted that economic activity in industrial countries was expected to improve considerably in 1984 but pointed out that, while the growth rate was strong in North America and had picked up in Japan, it continued to be weak in Europe where unemployment still remained at very high levels. They viewed with concern that the prospect for 1985 was for a substan-tial slowing down in the pace of growth. They also expressed concern that despite continued moderation in inflation in the industrial world, interest rates continued to be excessively high and had risen further in 1984, that misalignment of exchange rates as between major currencies persisted, and that protectionism had continued to intensify.

4. Ministers noted that, notwithstanding some improvement in pros-pects for growth in output and trade in 1984, the economic and financial conditions in many developing countries remained severely constrained, characterized as they were by low or negative growth rates, declining per capita incomes in many countries, cutbacks in investment, stringency in liquidity, continued constraints on imports, and heavy debt-service burdens. The terms of trade of developing countries continued to be weak, and there has been a disturbing decline in commodity prices recently. These developments have had a particularly severe impact on Sub-Saharan Africa.

5. Ministers deplored that, despite improvement in economic activity in industrial countries, protectionist measures continued to intensify, reducing access for developing countries' exports and ren-dering adjustment in their external accounts all the more difficult. They pointed out that the ability of developing countries to service their debt depends crucially on the growth of their exports. They emphasized that the debt position of many countries continued to be serious and had been aggravated by high and rising interest rates. It is crucial to bring down interest rates, as persistence of the current high rates involves, in many cases, large reverse flows of resources to industrialized countries, with serious implications for the investment and growth prospects of developing countries. Further, resolution of the debt problem required imaginative solutions involving debt restructuring over the longer term on reasonable conditions consis-tent with the need for orderly adjustment and growth. In this connec-tion, they urged that the recent exercises in multi-year restructuring of debt should be extended to other cases.

6. Ministers underscored the strong adjustment efforts made by many developing countries at great social cost, and emphasized that the effective resolution of their problems called for important changes in the policies of industrial countries. Ministers, therefore, urged that industrial countries take urgent action to make structural changes in industries where these do not have comparative advantage, eliminate protectionist measures, improve access of exports from developing countries, lower interest rates, improve the alignment of exchange rates, liberalize access to their capital markets and increase the flow of official development assistance. Industrial countries in Europe, especially those that have successfully moderated inflation, should shift the emphasis of their macroeconomic policies so as to promote and expand world recovery and bring down unemployment in their economies. Healthy recovery in the European economies would create more demand for imports from developing countries, especially from Africa and other exporters of primary commodities. They emphasized that, considering the large weight of the United States economy, lowering of the United States fiscal deficit and interest rates and adjustment of the U.S. dollar's exchange rate to more sustainable levels would have a beneficial impact on the world economy.

7. 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, and 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.

8. Ministers considers the question of access limits to Fund resources for 1985 and noted that the prospects for developing countries were marked by uncertainties, such as high interest rates, weak terms of trade, the seriously reduced access of several countries to commercial banks, and the hump in debt servicing in the second part of the 1980s. They pointed out that the reduction in the aggregate current-account deficits of developing countries had been brought about mainly through severe compression of imports, which was not sustainable in the medium term, and that several members would need large Fund financing in support of their adjustment programs, which are structural in character and require a longer time-span. Adjustment must not be pushed beyond the limits of social and political tolerance.

9. Ministers pointed out that, among other reasons, the Enlarged Access Policy was necessitated

by the inadequacy of quotas, which have remained insufficient even after the Eighth General Review, and urged that, until the size of quotas bears an appropriate relationship to world trade, it is imperative to maintain the policy of enlarged access without dilution.

10. Ministers, therefore, emphasized the need for continuing the Enlarged Access Policy in 1985 and beyond, and for maintaining, as a minimum, the current access limits under the policy.

11. Ministers stressed the need for maintaining, as a minimum, the present access limits under the Fund's special facilities. They pointed out that there was no warrant to link the review of access limits under the special facilities to those under the Enlarged Access Policy, and urged that the annual review of access under the special facilities should be discontinued.

12. Ministers urged a reversal of the increased conditionality being applied to the Compensatory Financing Facility, as conditionality had little relevance in the case of this Facility, which was designed to meet reversible export shortfalls beyond the control of the countries concerned. They also urged to make it a truly quick disbursing facility.

13. Ministers called for a study by the International Monetary Fund for establishing either a new facility in the Fund or for enlarging the Compensatory Financing Facility for alleviation of debt-servicing burden arising out of increases in interest rates which are beyond the control of developing countries. They urged that this study be completed by the time of the next meeting of the Interim Committee.

14. Ministers regretted that Fund financing in 1984 in individual cases had been highly restrictive and could have discouraged some members from approaching the Fund for assistance. They urged libera-lized financing, considering the continuing needs of several member countries and the improved liquidity of the Fund, so as to ensure that there is an appropriate balance between adjustment and financing.

15. Ministers urged that, as directed by the Interim Committee implementing its policies on access to its resources, the Fund should be particularly mindful of the very difficult circumstances of the small quota, low-income member countries; and avoid reducing its financing to such countries under a restrictive interpretation of its 'catalytic' role. They urged that the conditionality related to financing for these countries should take into account their special problems.

16. In considering the question of an allocation of SDRs. Ministers noted that the international non-gold reserves had stagnated over the recent years and that there was need for their substantial supplementation in view of the expected growth of world trade in the coming years.

17. Ministers expressed concern over the acute stringency in the reserve position of a large number of developing countries which had severely constrained their import capacity and brought about increasing trade and payments restrictiveness with an adverse impact on investment and growth in these countries. They emphasized that a substantial allocation of SDRs would promote economic recovery and would not be inflationary, would ease the serious constraints in the payments position of developing countries, promote world trade, help reserve

diversifi-cation, improve the balance between conditional and unconditional liquidity, reduce dependence on borrowed reserves, and generally support orderly adjustment.

18. Ministers reiterated their view that an annual allocation of no less than SDR 15 billion would be necessary in the Fourth Basic Period, and urged that as almost three out of the five years of the Fourth Basic Period had elapsed, annual allocations should continue beyond 1986.

19. Ministers emphasized that the unconditional use of SDR allocations must remain inviolate and rejected ideas suggesting conditional use of allocated SDRs as these contravene the letter and spirit of the Articles of Agreement of the Fund, imply a fundamental change in the character of the SDR, and would undermine the objective of making it the principal reserve asset.

20. Ministers deplored that in spite of a vast majority of Fund membership being in favor of an SDR allocation, no allocation has so far been made in the Fourth Basic Period, thereby making orderly adjustment more difficult and giving wrong signals to the international community on the commitment to make the SDR the principal reserve asset, and urged member countries that have not so far found it possible to agree to an allocation, to urgently reconsider their position. They urged the Interim Committee to develop a political consensus urgently for a substantial SDR allocation.

21. Ministers called for the establishment of a link between SDR allocations and development finance, a proposal which was all the more justified in the present context.

22. Ministers expressed grave concern at the serious decline in living standards in Sub-Saharan Africa, and deplored the prospective decline in net capital flows to the region from an annual average of about $11 billion in 1980-82 to $5 billion in 1985-87, which was inconsistent with the crisis confronting Africa. They commended the World Bank for its Report on a Joint Program of Action for Sub-Saharan Africa, and expressed the hope that it would constitute a basis for action by the international community in support of the region's development. They emphasized that the consensus which may develop on the Program of Action should be vigorously pursued and urgently and effectively implemented.

23. Ministers called upon the donor Governments and the multilateral institutions to maintain net annual capital-flows during the next few years in real terms, at least at the level achieved during 1980-82, and for this purpose, urged multilateral institutions to devise appropriate mechanisms such as a special assistance facility. They urged bilateral donors to urgently implement the Trade and Development Board Resolution (165-S-IX). They further urged that all outstanding bilateral ODA loans to the least developed countries be converged into grants, a measure which will provide relief to most countries of this region.

24. Ministers urged that to improve its effectiveness» bilateral assistance should be provided within the framework of recipient governmental development programs and priorities. They further urged the IBRD to expand its lending to Sub-Saharan Africa and the IFC to accord high priority to the region in its developmental lending and investment activities.

25. Ministers expressed concern at the decline in commodity prices, which has seriously affected

the external balances of primary producers and, in this context, called for urgent steps for stabilization and improvement of commodity prices, including early implementation of the Common Fund Agreement.

26. Ministers deplored the intensification of protectionist measures in most industrial countries which had harmed the multilateral trading system and slowed the growth of world trade. They believe that the 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 agricul-ture, textiles and manufactures.

27. Ministers underlined the importance of respecting the jurisdiction of GATT and UNCTAD in trade matters.

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

29. Ministers took note of the work being done by the World Bank on its future role and emphasized that its objective must continue to be one of commitment to development, growth and poverty alleviation, as enshrined in its Articles of Agreement. They urged that the Bank should quickly proceed to determine the financing needs of all developing countries, and take early steps to negotiate a General Capital Increase by FY 1986 so as to enable its lending operations to be expanded sufficiently to fully meet these needs, having regard to the Bank's enlarged coverage, the requirements of the energy sector, and structural adjustment lending.

30. Ministers urged that in its relations with highly indebted countries, the Bank should play a supportive role so that adjustment in these countries takes place in an environment of growth. They reiterated that a Task Force be established under the aegis of the Development Committee to study all aspects of the debt problem, including its relationship with the needs of development finance, and urged that the study be completed within a period of six months. This should not prejudice other initiatives on the part of debtor and creditor countries for alleviating the debt problem.

31. Ministers expressed concern at the undue emphasis on policy-based lending and the move to link the quantum of Bank assistance to increasing conditionality, and emphasized that coordination between the World Bank and the International Monetary Fund should be in keeping with their respective roles, and not become a means for exerting a concerted pressure on borrowing countries.

32. Ministers regretted the increasing tendency towards greater condi-tionality of financing for development and adjustment and even in relation to flows of commercial bank credits and its further reinforcement through greater institutional coordination. Excessive emphasis on policy-based lending and conditionality would adversely affect the integrity and flexibility of national

policies, and can interfere with the smooth flow of resources to the developing world. Ministers therefore urged that these trends be reversed through adoption of a more balanced approach.

33. Ministers noted the significant contribution made by IDA in the low-income developing countries through high net transfers, proven effective utilization of resources, alleviation of poverty, and provision of technical assistance, and urged that IDA as a multilateral institution should be strengthened.

34. Ministers expressed deep disappointment at the very inadequate IDA VII replenishment of $9 billion and at the lack of success so far in raising supplementary funds, and urged the IDA management to resume their efforts to expeditiously negotiate a supplementary fund of the order of $3 billion. They called upon the donor community to act generously, and not allow considerations of burden sharing to stand in the way of adequate funding of a program which is of such crucial concern to the low-income countries.

35. Ministers adopted a Revised Program of Action Towards Reform of the International Monetary and Financial System and called for its early implementation. In their view, there should be no delay in moving towards a thoroughgoing reform of the international monetary and financial system which would secure the objectives of sustained growth, exchange and monetary stability, and adequacy of resources for investment, particularly to meet the special needs of developing countries. Ministers called for the convening of an international monetary and financial conference as an important and essential step in this direction.

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