INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

THIRTY-FIRST MEETING OF MINISTERS

COMMUNIQUÉ

Washington, D.C.
April 16, 1985

1. Ministers of the Group of Twenty-Four on International Monetary Affairs held their Thirty-First Meeting in Washington, D.C. on April 16, 1985. Mr. Juan V. Sourrouille, Minister of Economy, Argentina, was in the Chair, with Mr. Tadease Gebre Kidan, Governor, National Bank of Ethiopia, and Mr. Vlado Klemencic, Federal Secretary for Finance, Yugoslavia, 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. D. R. Clarke, Development Committee, Mr. Shuaib U. Yolah, Under-Secretary General, United Nations, Mr. Jan Pronk, Deputy Secretary General,, UNCTAD, Mr. Sidney Dell, UNDP/UNCTAD, Mr. Ahmed T. Khalil, New York Chairman, Group of 77, Mr. Ali K. Hussain, OPEC, Mr. Y. S. Abdulai,, Director General, OPEC Fund, Mr. Hikmat M. Al-Azzawi, Governor, Central Bank of Iraq, and Mr. Abdallah El-Kuwaiz, Assistant Deputy Minister of Finance, Saudi Arabia, Mr. Liu Hongru, Vice-Governor, People's Bank of China, attended as invitee.

2. The meeting of Ministers was preceded on April 14 by the Forty-Second Meeting of Deputies of the Group of Twenty-Four with Mr. E. A. Zalduendo, Argentina, as Chairman and Mr. Tadesse Gebre Kidan, Ethiopia, and Mr. T. Ajanovic, Yugoslavia, as Vice-Chairmen.

3. Ministers reviewed the world economic situation and noted that, although the world economy registered an expansion in 1984, several elements -- including current account imbalances in the industrialized countries, a deterioration in the standard of living of the developing world, unemployment in Europe, protectionism and the unevenness and precariousness of the recovery -- suggest that the present situation is a cause for serious concern and could be characterized as unstable and unsustainable.

4. Ministers expressed serious concern on several issues, among which the most important are: the decline in flows of resources to developing countries; the debt situation; the increase in protectionism; the high level of interest rates; and the misalignment and volatility of exchange rates.

5. Ministers emphasized that economic and financial conditions in many developing countries remain severely constrained, characterized as they are by low or negative growth rates, increasing unemployment, declining per capita incomes in many countries, cutbacks in investment, unfavorable terms of trade, stringency in liquidity, acute compression of imports, net transfer of resources from developing countries, and heavy debt service burdens.

6. Ministers noted that growth in the industrial countries could slow down in 1985. In view of the

fragility and unevenness of the recovery, the persistence of high unemployment in Europe, the fiscal imbalances of the United States and the high value of the dollar, Ministers emphasized the need for maintenance of adequate and sustained growth rates in those countries and the coordination of their economic policies, in particular, fiscal and monetary policies.

7. Ministers urged the industrial countries -- especially those that have successfully moderated inflation -- to shift the emphasis of their macroeconomic policies to expand recovery, take urgent action to roll back protectionist measures, improve access of exports from developing countries, lower interest rates, and liberalize access to their capital markets.

8. Ministers emphasized that a lowering of the United States' fiscal deficit and interest rates is an urgent requirement of the world economy. They expressed concern that there is a persistent misalignment in the exchange rates of major currencies and that there is a risk of further disruption in currency markets, with serious negative implications for capital formation and debt servicing.

9. Ministers expressed concern over the decline in the terms of trade of developing countries despite the higher levels of economic activity in some industrial countries. This weakness of commodity markets is, to a large extent, related to high interest rates, the appreciation of the dollar, and the restrictions on the exports of developing countries.

10. Ministers pointed out that, in spite of harsh adjustment efforts of debtor developing countries and of significant debt reschedul-ing, external debt servicing continues to impose a very heavy burden. The situation, thus, requires imaginative solutions involving debt restructuring over the long term and there is an urgent need to move towards a 'positive' type of adjustment, consistent with sustained growth of output, of domestic consumption, investments and exports in the medium and the long run.

11. Ministers stressed the need for a significant increase in the transfer of real resources to developing countries and, for this purpose, urged that the resources of international financial institutions should be further strengthened to enable them to play a more effective role in the development and adjustment process. To this end, Ministers called for early steps to increase ODA in real terms, expand the capital base of the IBRD and of regional development banks, and raise IMF quotas.

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

13. Ministers urged that particular attention should be paid to the plight of Sub-Saharan African countries, which have been suffering a persistent decline in output for several years and whose ability to grow and adjust is seriously constrained by limited access to capital markets, a weak resource base, unfavorable terms of trade and recurring severe natural disasters. In this context they stressed the urgent need for additional financial aid to the region.

l4. Ministers emphasized that the debt problem requires the cooperation of debtor and industrial countries, commercial banks, and international financial institutions in the discharge of their respective responsibilities; also required is the co-responsibility of debtors and creditors, symmetry of adjustment and cooperative efforts aimed at a durable solution to the debt problem in a global framework.

15. Ministers reaffirmed their view that debtor countries have undertaken strenuous adjustment efforts in response to the external environment and that the imposed negative adjustment process is having strong social and political consequences for many debtor countries, including a serious decline in their standards of living and a deteriora-tion in their social fabric.

l6. Ministers urged that the terms and conditions of restructuring operations should be improved, including multi-year rescheduling, and be made available to other countries. They considered that debt-service payments should not claim an unreasonable proportion of export earnings and that Paris Club official creditors should agree to multi-year reschedulings.

17. Ministers emphasized that, in spite of Paris Club efforts to respond to the rescheduling needs of a large and diverse group of debtor countries, the results of such official debt relief have been insufficient, in view of the tendency of some creditor governments to reduce the amounts involved and to increase the interest charge on rescheduled debt. Taking note of the mutual benefits for both creditors and debtors alike, Ministers urged that meaningful relief be provided.

18. Ministers reiterated that, to alleviate the external debt burden of the low-income countries and to make it more consistent with their repayment capacity and development requirements, Trade and Development Board Resolution 165 (S-IX) must be expeditiously and fully implemented and the outstanding bilateral official development assistance loans must be converted into grants for the least developed countries.

19. Ministers called for the establishment of special facilities in the International Monetary Fund to alleviate the burden of higher cost of debt through such mechanisms as an interest subsidy account and the enlargement of the compensatory financing facility by providing additional resources to alleviate debt servicing arising from increases in interest rates and urged that these initiatives be complete by the time of the Fall meeting of the Interim Committee.

20. Ministers reiterated that a Task Force should be established by the Development Committee to examine all aspects of the debt problem and to study mechanisms for alleviating the burden of debt including, among others, the provision of additional resources, with due regard to the specific problems of low-income countries. The composition of this Task Force must give adequate representation to debtor countries, and its conclusions should be presented to the Development Committee for consideration at its Fall meeting. This analysis must not prejudice other initiatives on the part of debtor and creditor countries for alleviating the debt problem.

21. Ministers expressed concern over the decline in capital flows to developing countries in recent years resulting in some cases in a reverse flow of net financial resources, including commercial flows, the stagnation of official development assistance to developing countries and the decline in financial assistance from multilateral institutions.

22. Ministers urged that quotas in the IMF should be increased so that, as a proportion of world imports, they are restored at least to the higher historical levels. In this context, they underscored the need for reducing the normal interval for quota reviews to three years.

23. Ministers urged that, in view of the extremely difficult external-payments position of many developing countries, it is necessary to revive the Trust Fund and to make concessional loans to eligible countries.

24. Ministers expressed strong dissatisfaction with the drastic reduction of formal and actual access to Fund resources, including access to special facilities. They deplored the tightening in conditionality, and called for appropriate steps in order to reverse the process taking into account the growth and development needs of the country concerned.

25. Ministers emphasized the need for increasing the capital base of the IBRD and of regional development banks to ensure that their commitments are increased at a satisfactory rate.

26. Ministers emphasized that private direct investment can have a role to play, particularly as a source of transfer of technology and skills, but underlined that such investment should serve the host developing country's needs and conform with its national policies and priorities and cannot be a substitute for concessional and nonconcessional flows to developing countries.

27. Ministers took note of the work being done by the World Bank on co-financing with export credit agencies, pointing out that co-financing programs must complement, and not a substitute for, the regular sources of finance for development.

28. Ministers affirmed that the export credit agencies should ensure that their resources are provided for the development of the developing countries and not only for the promotion of national exports envisaged by their governments.

29. Ministers reiterated the importance of the role played by IDA in promoting economic development, increasing productivity and thus helping to raise standard of living and to alleviate poverty in less developed countries of the world.

30. Ministers expressed deep disappointment at the steep decline in the availability of IDA resources and at the lack of response from donor countries so far in arranging supplementary financing for the very inadequate Seventh Replenishment of IDA.

31. Ministers urged that the mid-term review of IDA, in accordance with the Canadian proposal, should he expeditiously completed and that an additional amount of at least $3 billion on IDA terms should be made available during the Seventh Replenishment period.

32. Ministers emphasized that the mid-term review of IDA should, inter alia, take into account the very significant contribution of IDA in low-income countries through high net transfers, effective utilization of resources, alleviation of poverty and the provision of technical assistance; and the review should lead to a strengthening of IDA as a multilateral institution to enable it to

effectively fulfill its role In relation to all low-income countries.

33. Ministers expressed serious concern at the diminishing support for ODA, as characterized by the decline of ODA from DAC countries as a percentage of GNP; in this connection the Ministers called upon the donor countries to take urgent steps to achieve the internationally agreed target of 0.7 percent of GNP and to put ODA on an assured, continuous and predictable basis.

34. Ministers expressed their most serious concern over the intensification of protectionist and discriminatory measures by industrial countries, which continue to hamper the growth and adjustment progress in developing countries, and they pointed out that trade restrictions have been imposed not only in traditionally protected sectors but also in new sectors and that those restrictions originally intended as temporary measures have been continuing.

35. Ministers reaffirmed that it is imperative that developed countries urgently and effectively halt protectionism and resist continuing protectionist pressures (standstill), formulate and adopt measures towards dismantling trade restrictions (roll-back), in parti-cular, the elimination of non-tariff barriers and discriminatory restrictions facing exports of developing countries; and they stressed that developed countries should take the first step to liberalize trade immediately in sectors of current or potential interest to developing countries.

36. Ministers underscored that it is essential to implement all measures of interest to developing countries agreed at the Tokyo Round and all other aspects of the current GATT Work Program of particular interest to the trade of developing countries, and that availability of adequate foreign exchange resources and financial assistance is a prerequisite for any trade liberalization in developing countries.

37. Ministers called upon the developed countries to promptly implement their undertakings to lift any measures inconsistent with GATT or not based on specific GATT disciplines which restrict or have the effect of restricting exports of developing countries to their markets and to refrain from introducing new ones; and to agree to engage in serious efforts on a priority basis to implement all other aspects of the current GATT Work Program of particular interest to the trade of developing countries. Ministers reiterated that if the developed countries comply with these undertakings, which include pending commitments agreed to by them, the developing countries would be in a position to consider taking the initiative of proposing specific trade negotiations in GATT, the basic objective of which would be significant enlargement of access for developing countries' exports to the markets of developed countries. They further reiterated that such specific trade negotiations must be confined to trade in goods only and should cover manufacture and semi-processed goods, as well as agriculture and natural resource products and encompass the totality of tariff and non-tariff barriers. Techniques and modalities for such negotiations should be established to concretely quantify, to the extent possible, the application of the GATT provisions of special and more favorable treatment for developing countries.

38. Ministers pointed out that special and more favorable treatment recognized by the GATT in favor of developing countries should be effectively implemented. Those countries, therefore, should not be expected to offer reciprocal concessions to developed countries.

39. Ministers emphasized that multilateral financing should not be linked to conditionality relating to trade matters, as this would accentuate the asymmetry prevailing at present in the treatment by international financial institutions of developed and developing countries; and they emphasized that the proposals for specific performance criteria set out in Fund programs and structural adjustment loans by the World Bank put pressure only on the developing countries for trade liberalization.

40. Ministers underlined the importance of respecting the jurisdiction of the GATT and UNCTAD In trade matters.

41. Ministers considered the question of an allocation of SDRs in the Fourth Basic Period and noted that there exists a substantial long-term global need for international reserves supplementation in view of the current conditions and the expected growth of world trade, financial transactions, and output.

42. Ministers expressed concern at the acute stringency in the reserve position of a large number of developing countries, which has contributed to a significant underutilization of productive resources and which has brought about increasing trade and payments restrictive-ness with an adverse impact on the investment and growth of those countries.

43. Ministers emphasized that a substantial allocation of SDRs would promote economic recovery and would not be inflationary; rather, it would ease the serious constraints in the payments positions of developing countries, promote world trade, help reserve diversification, improve the balance between conditional and unconditional liquidity, reduce dependence on borrowed reserves, and generally support orderly adjustment.

44. Ministers deplored that, notwithstanding that the relevant provisions of the Articles of Agreement and their legal interpretation have been satisfied and that different indicators clearly show the need for an SDR allocation, the approval of an allocation in the Fourth Basic Period has been unduly postponed.

45. Ministers urged the few member countries that have not so far found it possible to agree to an allocation to reconsider their position and requested the Interim Committee to develop an early political consensus for the approval of an immediate and substantial SDR allocation.

46. Ministers urged that an annual allocation of SDR 13 billion in the Fourth Basic Period should be finally approved and should continue beyond 1986, since three out of the five years of the Fourth Basic Period have already elapsed; and they emphasized that regular annual SDR allocations are necessary in order to attain the objective of making the SDR the principal reserve asset in the system.

47. Ministers reaffirmed that the unconditional character of SDR allocations must be maintained in accordance with the letter and spirit of the Articles of Agreement and reiterated the call for the establish-ment of a link between SDR allocations and development finance, a proposal which is all the more justified in the present world context.

48. Ministers discussed the surveillance activities of the IMF expressed their dissatisfaction with the current asymmetry and limited effectiveness of surveillance as it is experienced mostly by the countries using the Fund's facilities, which implies that all the adjustment process has been borne exclusively by those countries.

49. Ministers stressed that the pronounced swings in exchange rates among the major currencies, the abnormally high levels of real interest rates in industrial countries -- particularly the United States -- the protectionist practices pursued by most of the industrial countries, and the severe balance-of-payments and debt difficulties of the developing countries demonstrate the need for improving the effectiveness of Fund surveillance.

50. Ministers urged the Fund to implement effectively and symmetrically the provisions of the Articles of Agreement in connection with its surveillance over the general obligations of members with key currencies so that the Fund's surveillance function would be effectively and equitably discharged with due regard to the changing international circumstances. These actions shall be made without prejudice to such amendments as may be appropriately effected to further strengthen the relevant provisions in the Articles of Agreement.

51. Ministers pointed out that -- in spite of the recommendations of the Fund derived from its surveillance function -- the policies followed by some industrial countries have forced the world economy into a lower level of activity than would otherwise have been necessary thus producing harsher adjustment paths for developing countries.

52. Ministers reiterated that the role of the World Bank is one of commitment to development, growth and poverty alleviation as enshrined in the Articles of Agreement.

53. Ministers expressed concern at the reduction in the lending program of the IBRD in FY 1985, and emphasized the importance of adopting policies that are in tune with economic realities in developing countries and of removing certain self-imposed constraints in Bank operations. They expressed dissatisfaction at the fact that such a reduction has involved a decline in assistance to a few countries which are experiencing unusual economic difficulties due to their debt burden.

54. Ministers emphasized that temporary fluctuations in the scale of lending should not have any bearing upon the effort to enhance and strengthen the capital requirements of the IBRD in a longer-term perspective aimed at responding to the needs of developing countries.

55. Ministers took note of the discussions in the Board of Directors of the IBRD on the Future Role of the Bank and called upon all shareholders as well as the management of the IBRD to now proceed quickly to negotiate a General Capital Increase within FY 1986, which would enable its lending operations to be expanded sufficiently, while having regard for the Bank's enlarged coverage, the increased need of developing countries for resources, the requirements of structural adjustment lending and the need to maintain net transfers at a reasonable level.

56. Ministers expressed concern at the disturbing projections with regard to net transfers and emphasized the crucial role of the World Bank in providing for a significant increase in the flows

to developing countries and for a reversal in the trend toward negative net transfers to developing countries.

57. Ministers reiterated that positive net transfers are of crucial importance to those Bank members that are still on the development path and where capital flows from other sources are not adequate at present.

58. Ministers called on the World Bank to implement the 'Statement on Graduation" unanimously adopted by the Executive Board on September 11, 1984, according to which graduation can only take place with the agreement of the country concerned. They expressed grave concern at the fact that recent Bank practice and documents seem to ignore or contravene the 'Statement on Graduation.'

59. Ministers expressed concern at the undue emphasis on policy-based lending and cautioned against linking the quantum of Bank assistance to increasing conditionality. They emphasized that the Bank's role should conform to national policies and regional commitments of the borrowing countries. In this connection they also pointed out that the catalytic role envisaged for the Bank must be used to facilitate additional financial flows and not lead to the transfer of the Bank's responsibilities to the private sector.

60. Ministers urged the Bank to ensure that structural adjustment lending is implemented in an environment of growth, taking into account the national policies and objectives of member countries.

6l. Ministers expressed satisfaction at the decision not to establish any formal relationship between the Bank and the Fund or a joint committee of the two institutions and emphasized that coordination between the World Bank and International Monetary Fund should not become a means for enforcing any type of cross-conditionality but should help place developing countries on the path of growth and development.

62. Ministers emphasized that the procurement guidelines of the World Bank should be improved so as to give incentives to bidders from developing countries.

63. Ministers reiterated their grave concern over the continued deterioration of economic and social conditions in Sub-Saharan Africa emanating from the recurrence of natural disasters and an adverse external environment in the face of extremely low levels of accumulated capital stock, technology and technical skills. Ministers emphasized the need for a concerted and massive action by the international community to avert severe damage to the socio-economic infrastructure and to enhance the prospects for growth and development.

64. Ministers expressed appreciation to the World Bank for its efforts to establish a Special Assistance Facility for Sub-Saharan Africa to meet the special needs of the region. They regretted that the level of the existing facility is grossly inadequate, urged the expansion of this facility and asked those countries that have not yet contributed to join existing donors to increase the amounts provided thus far.

65. Ministers expressed their appreciation for the persistent efforts made by the Secretary-General of the United Nations to draw the attention of the world community to the emergency as well as the long-term needs of Sub-Saharan Africa.

66. Ministers reaffirmed that the Special Facility was envisaged to be a facility to supplement and expedite the efforts to arrest the deterioration of the economic and social conditions in Sub-Saharan countries and expressed concern that the excessive emphasis placed on macroeconomic adjustment policies may compromise or undermine the urgency of the problem by causing delays in disbursement.

67. Ministers drew attention to the danger of viewing the Facility as a substitute for the need to increase official development assis-tance and pointed out that the projected decline in ODA flows in real terms will have adverse consequences on investment and economic growth of Sub-Saharan African countries and will severely curtail their already limited debt-servicing capacity and, in this context, urged a substantial increase in the inflow of bilateral and multilateral official resources.

68. Ministers emphasized that the debt burden of Sub-Saharan countries, including repayment obligations to multilateral institutions, has reached unsustainable levels and that there is an urgent need to fully implement previously agreed debt relief measures.

69. Ministers reiterated the need to move towards a fundamental reform of the international monetary and financial system and, in this context, they reiterated the call for an international conference. The developing countries should be full participants in this conference, and its agenda should be broad enough to cover all aspects of the international monetary system. Steps toward this objective should take into account the ideas contained In the 'Revised Program of Action towards Reform of the International Monetary and Financial System.'

71. Ministers encouraged the developing countries to move forward along the path of economic cooperation among developing countries in the monetary and financial fields, as a means to accelerate their economic development and better confront the present difficult world environment.