INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

Thirty-Fourth Meeting of Ministers

COMMUNIQUÉ

April 08, 1986

1. Ministers of the Group of Twenty-Four on International Monetary Affairs held their Thirty-Fourth Meeting in Washington, D.C. on April 8, 1986. Mr. Tesfaye Dinka, Minister of Finance, Ethiopia, was in the Chair, with Mr. Vlado Klemencic, Federal Secretary for Finance, Yugoslavia, and Mr. Dilson Funaro, Minister of Finance, Brazil 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. Kenneth Dadzie, Secretary General, UNCTAD, Mr. Sidney Dell, UNDP/UNCTAD, Mr. Olivier Castro, Executive Secretary, Central American Monetary Council, Mr. Mafizur Rahman, Vice-President, Islamic Development Bank, Mr. Ali K. Hussain, OPEC, Mr. Y. S. Abdulai, Director General, OPEC Fund, Mr. Even Fontaine-Ortiz, Cuban Mission to the United Nations, Mr. Subhi Frankool, Deputy Governor, Central
Bank of Iraq, Mr. A. Bennani, Governor, Banque du Maroc, and Mr. Mohamed Abal-Khail, Minister of Finance and National Economy, Saudi Arabia. Mr. Li Peng, Vice-Minister of Finance, Ministry of Finance, China, attended as invitee and Mr. S. El-Naggar and Mr. D. Avramovic attended as special guests.

2. The meeting of Ministers was preceded on April 6 by the Forty-Sixth Meeting of Deputies of the Group of Twenty-Four with Mr. Tadesse Gebre-Kidan, Ethiopia, as Chairman and Mr. C. Dujmovic, Yugoslavia as Vice-Chairman.

World Economic Outlook

3. Ministers reiterated their serious misgivings over prospects for continued growth and expressed concern that, in 1985, growth rates in industrial countries were disappointingly low; growth in world trade was only one half of what was anticipated last year; commodity prices continued to fall, the terms of trade of developing countries deteriorated sharply, and their real export earnings actually declined; bank financing to indebted countries virtually ceased; and official capital flows stagnated even in nominal terms. All this resulted in a slowdown of growth in developing countries and made adjustment intract-able; and efforts to adjust the external payments position have reduced standards of living, in many cases, well below their level of more than a decade ago.

4. Ministers deplored the intensification of protectionism; emphasized the need for further policy coordination among the major industrial countries to ensure a stable monetary and exchange rate system and to reduce the real interest rates; and called on industrial countries to implement

macroeconomic policies that are supportive of sustained expan-sion of output and trade and to roll back the existing trade barriers, resist protectionist pressures, and eliminate subsidies to production.

5. Ministers noted the sharp and continuing fall in the price of oil and the resultant massive shift in income from the oil-exporting developing countries to the developed countries, and they expressed concern at the adverse impact this will have on the economies of oil exporting developing countries, and their ability to sustain development and meet debt service payments. The severe impairment of the ability of these countries to import and continue financial assistance will have further adverse consequences on some other developing countries. Ministers called upon the industrial countries and the IMF to establish a facility for transferring these resources to developing countries adversely affected by the recent fall in oil prices.

Debt Situation and Strategy

6. Ministers reiterated that the failure of the current debt manage-ment approach to find a definitive solution to the debt crisis is rooted in an inadequate diagnosis of the problem and, as a consequence, there are inconsistencies between short-term deflationary adjustment policies and the need to obtain a long-term equilibrium. Although an essential element of the strategy followed so far recognizes the responsibility of industrial countries to provide a stable and growth -oriented economic environment, developments in 1985 show that industrial countries have fallen short of this commitment, and the situation of indebted countries remains most fragile; the vulnerability of indebted countries to external developments is clearly illustrated by the fact that, in spite of continued adjustment, the debt of developing countries has continued to increase, despite very large resource outflows; and it has increased even more in real terms as a result of a continuing fall in export prices.

7. Ministers emphasized paragraphs 3 to 5 and 7 to 13 of G-24 Communiqué No. 33 (Buenos Aires, March 6, 1986) annexed hereto.

8. Ministers emphasized that there is a need for all industrial countries to express their political will to support imaginative proposals to find a lasting solution to the debt problem. Considering that the indebted developing countries are making unbearable sacrifices, Ministers expressed their view that there is an urgent need to consolidate efforts to restore growth.

9. Ministers pointed out that the adjustment efforts of many developing countries are jeopardized, inter alia, by the continuous utilization of present market interest rates plus fees and commissions, by the lack of mechanisms and strategies capable not only of accelerating the flow of credit to these countries but also of causing reductions in interest rates below the market level on past debt and improving rescheduling exercises by substantially extending grace and repayment periods and taking account of the flows of export earnings. Unless this is under-taken, all efforts at resolving the debt problem will be neutralized and new debt will accumulate at an unsustainable pace; they reiterated the recommendation that, for countries heavily indebted to the inter-national banking system, the possibility of differentiating existing debt from new credit flows should be explored for the purpose of determining interest payments.

10. Ministers regretted the recent increase in the rate of charge on IMF facilities and called for immediate steps to reverse the increase.

11. Ministers urged that multilateral institutions and bilateral donors not only act to respond to crisis situations but also to take preventive measures in respect of low-income countries that are not now in debt difficulties but could potentially become problem countries unless adequate concessional flows are made available to them, so that they are not forced to incur high-cost debt.

12. Ministers stressed that the debt problem of low-income, countries -especially in Sub-Saharan Africa, has not received enough attention, although the debt burden of these countries relative to their income has contributed to a decline in their living standards that is almost disastrous. Ministers called on the international community to find a more innovative solution, including conversion of part of the debt of the low-income countries into grants and long-term rescheduling on less onerous terms.

13. Ministers expressed grave concern at the inability of many countries to discharge their obligations to multilateral financial institutions. They urged these institutions to search for pragmatic approaches amenable to the resolution of the problem.

14. Ministers reiterated that a political dialogue among all interested parties aimed at resolving the debt problem must include the governments of debtor and creditor countries, multilateral financial institutions, and the commercial banks and that the dialogue must be collective, sustained, and comprehensive.

SDR Allocation

15. Ministers reaffirmed their call for an allocation of SDRs before the end of the fourth basic period totaling no less than SDR 15 billion. Ministers underscored that the call is fully substantiated by various technical studies by the IMF and other bodies. Such allocation would greatly assist in the present circumstances of a shortage of international liquidity.

16. Ministers urged early consideration of the appropriate size of SDR allocations in the period after 1986 in order to meet the growing demand for reserves in a large number of countries.

17. Ministers expressed concern at the relentless pressure on the export earnings of developing countries due to deterioration in their terms of trade, the continuous fall in concessional and nonconcessional resource flows to developing countries, the precariously low level of reserves of many low-income countries, and the massive transfer of resources from the developing to the developed countries. A special allocation of SDRs is required to avert powerful deflationary forces at work in these countries, and Ministers urged the industrial countries to muster the necessary political will to facilitate special allocations of SDRs over the next two years, with that group of countries forgoing its share. The amount for the first year could be SDR 25-30 billion, and the second-year require-ment should be determine in the light of circumstances.

Functioning and Improvement of the International Monetary System

18. Ministers took note of the discussions on the G-10 and G-24 proposals for the reform and improvement of the international monetary system that took place in the IMF Executive Board. They reiterated the recommendations made on the subjects in the Report of the G-24 on the Functioning and Improvement of the International Monetary System with respect to the functioning of the present exchange rate system, surveil-lance, management of international liquidity, the role of the SDR, and Fund conditionality. However, Ministers expressed serious concern that the recommendations contained in the G-24 report on the role of the IMF, which includes, among others, important issues such as the nature and design of balance-of-payment adjustment programs, conditionality, enlarged access policy, need for concessionality in Fund lending, increases in quotas, and the decision-making process, have not been brought for the consideration of the Interim Committee. They urged that in view of the importance of these subjects for improving the international monetary system, the IMF Executive Board should examine the role of the Fund and bring its findings to the Interim Committee at its September 1986 meeting.

19. Ministers expressed disappointment at the lack of progress in reaching agreement on concrete programs of action and indicated that it is now time for formulating concrete proposals for negotiation on the basis of the G-10 and G-24 reports.

Follow-up on the Reform Proposals of G-10 and G-24

20. Ministers reiterated the call for the creation of a representative Committee of Ministers from developing and industrial countries to examine the proposals of the G-10 and G-24 in relation to the reform and improve-ment of the international monetary system so that necessary follow-up actions are pursued. This Committee could perhaps take the form of a joint subcommittee of both the Interim and Development Committees and should conduct its business on the basis of consensus.

21. Ministers noted that to ensure that a consistent set of proposals is constructed on each topic dealing with the reform of the international monetary and financial system for the purpose of negotiation and agreement by the Interim and Development Committees, it is proposed that a committee of Deputies be formed, consisting of members from developed and developing countries, which would work out these specific alternative proposals after taking into account the implications and interconnections of these proposals, and that a comprehensive action program be drawn up and con-sidered at the 1986 Annual Meetings.

Structural Adjustment Facility

22. Ministers, while welcoming the establishment of the Structural Adjustment Facility to provide assistance to low-income countries, pointed out that the size of the facility is extremely small in the light of the declared objective and therefore urged that the facility be augmented substantially. It is hoped that such an action will go a long way toward supplementing similar efforts in other fora that will be taken effectively to address the structural problems of low-income countries. They further emphasized the additional character of this facility, which should not become a substitute for existing facilities which should remain available to eligible members.

23. Ministers expressed their deep concern that the facility constitutes a major departure from the spirit and operational procedures of the Trust Fund, which was basically a low-conditionality, quick-disbursing, and additional mechanism; and they noted that the tightening of conditionality introduced with the SAF might result in the exclusion of a large number of deserving countries from the benefit of these resources. Thus, Ministers urged the Fund to exercise considerable flexibility in the implementation of the SAF; any Fund-Bank collaboration in this regard should avoid cross-conditionality, with the Institutions limiting their advice to areas of their respective expertise and competence and with full respect for the sovereignty of members requiring assistance.

24. Ministers emphasized that the policy framework procedure should not be extended to other Fund and Bank facilities, and they stressed that resources available to other countries not using the SAF should neither be adversely affected by it nor subjected to higher conditionality.

Achievement of Sustained Growth in Middle-Income Countries Encountering Debt-servicing Difficulties

25. Ministers expressed concern that the continued deterioration in terms of trade and the persistence of high real rates of interest have aggravated the debt-servicing problems of many highly-indebted, middle-income developing countries; they noted that the vigorous pursuit of domestic and external adjustment based on significant policy reforms by these countries has been carried out under severely constrained external financing and has contributed to economic slowdown and decline in living standards with no letup in debt accumulation.

26. Ministers emphasized that the medium-term prospects of developing countries, including middle-income ones facing debt-servicing difficulties, are determined to a significant extent by the economic performance and management of industrial countries; they urged that recent efforts not-withstanding, much more needs to be done to encourage adequate noninfla-tionary and sustained growth of output, achieve further reductions in real interest rates, address labor market rigidities, and reduce support to inefficient industries and agriculture in industrial countries; and they underscored the urgency of a concerted effort to reduce industrial countries' protectionist measures against developing countries if growth in the exports of these countries is to be achieved.

27. Ministers noted with dismay the stagnation of inflows of external capital to highly-indebted, middle-income developing countries in the past year, and in particular the virtual halt of new commercial lending, the failure of debt rescheduling to significantly reduce the debt-servic-ing burden, the cessation of non-concessional bilateral flows, and the reluctance of export credit agencies to provide insurance to countries undergoing reschedulings.

28. Ministers affirmed the need for substantial net capital flows from all sources to these countries over the next five years in order to assure consistency between debt servicing and the urgent need for growth.

29. Ministers reiterated the need for greater financial support of the international financial institutions, in particular the increased IMF assistance in support of growth-oriented adjustment

programs, and of the World Bank through substantially expanded lending and assistance in the mobilization of private and official flows without eroding the Bank's primary role as a development finance agency or its financial standing.

Resource Problems of Sub-Saharan Africa

30. Ministers reiterated their concern over the continued long-term trend of decline in economic activities in Sub-Saharan Africa.

31. Ministers commended the Bank for preparing the report entitled "Financing Adjustment with Growth in Sub-Saharan Africa, 1986-90," which emphasizes growth-oriented adjustment programs with implications for substantial external resource flows, urged donors to do their utmost toward meeting the resource requirements of the region, and pointed out that the credibility of the Report's strategy for adjustment with growth and the materialization of the renewed determination of national authorities to institute substantive structural adjustment programs rests on the donors embarking on a more comprehensive, long-term and sustained aid effort to support these programs.

32. Ministers, taking into account the difficult situation of African countries, urged that these countries should remain net recipients of resources from donor countries and multilateral institutions and stressed that under no circumstances should they become net exporters of capital.

33. Ministers expressed grave concern at the deepening debt crisis in Sub-Saharan Africa and cautioned that debt service obligations of these countries have now reached virtually unmanageable proportions and that the region is unable to fully service its debt; and they called on the international community to address this grave problem with the utmost urgency.

Official Development Assistance and Eighth Replenishment of IDA

34. Ministers expressed concern that against the background of major development challenges facing low-income countries, official development assistance is expected to increase by only 2 percent in real terms during the rest of this decade, a projection which falls short of even the anticipated average growth rate of industrial countries' economies.

35. Ministers emphasized that the Task Force on Concessional Flows has called upon the donor governments to exert redoubled efforts to increase the supply of ODA as a matter of urgency so that the needs of all low--income countries for growth and poverty alleviation can be met; in this context, they urged that effective and urgent steps be taken to achieve the internationally accepted 0.7 percent ODA/GNP target, paying due regard to the 0.15 percent target established for the least developed countries.

36. Ministers emphasized that a firm action-oriented program should be drawn up for implementing the recommendations of the Task Force on Concessional Flows.

37. Ministers expressed disappointment at the declining support for multilateral aid agencies, especially given the many proven advantages of channeling ODA through such agencies,

particularly IDA, both in terms of effective utilization and allocation.

38. Ministers emphasized that as a premier multilateral aid agency, IDA has made a very significant contribution to the development of low-income countries through high net transfers, effective utilization of resources, alleviation of poverty and provision of technical assistance; and, in this context, they urged that IDA as a multilateral institution be strengthened.

39. Ministers expressed deep disappointment at the highly inadequate level of the Seventh Replenishment of IDA -- which represented a steep decline in real terms from the level of IDA-VI -- and at the lack of success in supple-menting the resources of IDA-VII.

40. Ministers emphasized that Sub-Saharan African countries are facing a development crisis and that the resources of the Special Facility for Sub-Saharan Africa are highly insufficient in the light of their needs; and they urged that high priority be given to meeting the external resource requirements of these countries.

41. Ministers urged that the imbalance between the size of IDA-VII and the minimum requirements of all low-income countries be corrected in IDA-VIII and, in this context, they emphasized that the size of IDA-VIII should represent a substantial increase in real terms over resources available under IDA-VII and the Special Facility for Sub-Saharan Africa.

42. Ministers deplored suggestions for a hardening of IDA terms and emphasized that the circumstances facing the low-income countries do not warrant any change from the current terms and conditions.

43. Ministers stressed that IDA operations should be in support of development needs as perceived by the borrowing countries themselves and that any arrangements that may be necessary for coordinating conces-sional flows from different sources should not lead to impediments in IDA operations or to the creation of a mechanism for applying concerted pressures on the developing countries.

World Bank Lending Program and General Capital Increase

44. Ministers reiterated that the role of the World Bank is one of commit-ment to growth, development, and poverty alleviation as enshrined in its Articles of Agreement. They strongly supported the important role of the World Bank in assisting its member countries to meet new challenges.

45. Ministers welcomed the strong support given by the Development Committee for a substantial expansion in the Bank's lending program so that it respond more effectively to the needs of its developing members and to stimulate the flow of capital from other sources. They endorsed the view expressed by the Development Committee that the Bank should not be constrained by lack of capital or borrowing authority in meeting future demand; and, in this context, they expressed disappointment at the slow pace in determining and meeting the capital requirements of the Bank.

46. Ministers urged the Development Committee at its forthcoming meeting to agree on a firm timetable for negotiating a General Capital Increase so that a specific proposal for this purpose can be presented for approval at the 1986 Annual Meetings.

47. Ministers cautioned that the various stretching techniques are not in line with the character of a development institution; at best, they should be considered as supplements to the Bank's lending capacity, not as substitutes for an enlarged capital base.

48. Ministers emphasized the need for revising repayment terms for future IBRD commitments to take into account country and project circumstances, and they urged that such liberalization be applied to all low-income countries as well as to middle-income countries facing debt-servicing problems.

49. Ministers emphasized that the resource implications of the Bank's role should be based on a lending growth rate of at least 6.5 percent per annum in real terms, which would enable net transfers to remain at reasonable levels; and, in this context, they observed that a lending level of $21.5 billion per annum by FY 1990 is the minimum consistent with the developmental role of the Bank.

50. Ministers reiterated that the case for an early and substantial capital increase of the World Bank has been established in unmistakable terms and they called for commencement of negotiations for a General Capital Increase that would at least double the current authorized capital of SDR 78.7 billion.

Regional Development Banks

51. Ministers emphasized that regional development banks have an important role to play in assisting countries to cope with existing problems, and they expressed serious concern over the weakening of support for the regional development banks on the part of some industrial countries at a time of declining commercial bank credits to developing countries.

52. Ministers stressed that the basic characteristics of the regional development banks and their regional nature should not be altered to the detriment of the interests of member developing countries and, in this context, they urged the Development Committee to call upon the industrial country members of these banks to refrain from linking negotiations for increase in, or replenishment of, the capital bases of these banks to proposals for any such changes.

Convening of International Monetary Conference

53. Ministers reaffirmed that an effective reform of the international monetary and financial system requires the convening of an international conference, and they expressed the view that the proposed representative committee of Ministers mentioned in paragraph 20 will be an effective step in preparing for such a conference.

Expression of Appreciation

Ministers of the Group of Twenty-Four expressed their deep appreciation to Mr. A. W. Clausen, as President of the World Bank, for his support of the efforts of the Group of Twenty-Four to promote the development causes of developing countries.

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Place and Date of Next Meeting

Ministers agreed to hold their next meeting in Washington, D.C. in September 1986, in conjunction with the 1986 Annual Meetings of the Fund and World Bank.