INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

THIRTY-THIRD MEETING OF MINISTERS

COMMUNIQUÉ

March 06, 1986

1. Ministers of the Group of Twenty-Four on International Monetary Affairs held their Thirty-Third Meeting in Buenos Aires, Argentina, on March 6, 1986, Mr. Juan V. Sourrouille, Minister of Economy, Argentina, was in the Chair, with Mr. Tadesse Gebre-Kidan, Governor, Ethiopia, and Mr. Zivorad Kovacevio, Federal Minister for Foreign Economic Relations, Yugoslavia, as Vice-Chairmen. The Group was addressed by the President of the Argentine Republic, Dr. Raul Alfonsin. The meeting was attended by Mr. William Hood, Economic Counselor and Director of the Research Department, International Monetary Fund; Mr. Jose Botafogo Goncalves, Vice President, External Relations, the World Bank; Mr. F. Fischer, Executive Secretary, Development Committee; Ambassador Ignac Golob, Chairman, Group of Seventy-Seven; Mr. Roger Lawrence, UNCTAD; Mr. P. Malan, Director, General Analysis and Policies Division, United Nations; Mr. Sidney Dell, Project Director, UNDP/UNCTAD; Mr. Y. Seyyid Abdulai, Director General, OPEC Fund; Mr. Francisco E. Thoumi, Chief of International Economy, Inter-American Development Bank; Mr. Sebastian S. Omari, Deputy Director, Planning and Research Department, African Development Bank; Mr. Olivier Castro, Executive Secretary, Monetary Council of Central America; and Mr. Yinong Tian, Vice-Minister of Finance, China, attended as invitee.

2. The meeting of Ministers was preceded on March 4, 1986 by the Forty-Fifth Meeting of Deputies of the Group of Twenty-Four, with Mr. E. A. Zalduendo of Argentina as Chairman, and Mr. Tadesse Gebre-Kidan, Ethiopia, and Mr. B. Novoselac, Yugoslavia, as Vice-Chairmen. Papers were presented at this meeting at the request of the Group prepared by Mr. Sidney Dell, Mr. Arturo O'Connell, Mr. Dragoslav Avramovia, Mr. Paul Krugman, and by the African Development Bank and the Inter-American Development Bank.

The External Debt Problem

3. Considering that the current approach in dealing with the external debt problem is based on an inadequate diagnosis and has failed to find a stable and durable solution to the problem, Ministers:

a) emphasized that the traditional approach based on short-term adjustment policies is not compatible with the attainment of long-term equilibrium and does not take sufficient account of the seriousness of the structural problems that developing countries are facing; noted that a climate of permanent uncertainty has been created by the continuing renegotiation of debt from a purely accounting point of view and by short-term palliatives that have led to a relaxation of the effort to find a long-term solution to the problem; and stressed that this uncertainty has had a negative effect on economic, social, and political prospects of developing countries. Ministers noted that notwithstanding the process of debt restructuring, developing countries are still left with a major resource transfer problem due to debt-servicing requirements. In this connection, Ministers noted that a maximum level of transfer of funds linked to an adequate growth target could be envisaged. They also noted that debt-service payments should not claim an unreasonable proportion of export earnings, one that would seriously affect the standards of living of vulnerable groups and even threaten social and political stability.

b) observed that as a result of deteriorating terms of trade, the traditional adjustment programs have led debtor countries to adapt to a situation of relative prices in the international markets which cannot be considered compatible with the achievement of long-term equilibrium; and emphasized, furthermore, that the highly volatile nature of those markets can make even the best adjustment efforts ineffective.

c) considered that the traditional conditionality and that which is required for "structural change" should be consistent with the political and economic conditions and objectives of each country. IMF conditionality must take into account the requirements for the growth of production and employment and respect each country's individual capacity to set up and execute its adjustment plans.

d) noted that several studies, including those of the IMF, show that serious adjustment efforts have been made by developing countries, exceeding expectations; nonetheless, the adjustment process remains asymmetrical and inequitable because the industrial countries are not making parallel efforts to adopt and implement in a coordinated fashion appropriate economic policies, to eliminate trade restrictions and subsidies to exports, and to reduce the fiscal imbalances that lead to high real interest rates, which at present are well above historical levels. Ministers pointed out that the price index of primary products has dropped to the lowest level since the World Bank began making such estimates 40 years ago, a fact all the more serious if one takes into account that estimates for the forthcoming decade show a stagnation at approximately 1985 values.

e) expressed concern at the continuous fall in the nominal and real prices of oil and other commodities in the past few years, and expressed apprehension about the resulting negative effects on the economies of oil-producing countries as well as those of some other developing countries.

f) stressed that debt renegotiations with the Paris Club have shown additional inconsistencies; and expressed concern that creditor country members of the Paris Club have not accepted the need to apply more favorable rates of interest and to align the terms of the operations with the maturity terms of investments, have made new export credits conditional on debt restructuring, are opposed to multiyear reschedulings, have increased conditionality by demanding prior agreements with the IMF, have permitted only the capitalization of overdue interest maturities and are not attempting to diminish the length of the negotiation rounds, which have become onerous for developing countries.

g) considered that the solution to the external debt problem requires a flexible regulatory environment. They expressed concern that the bank regulatory authorities of industrial countries have recently introduced regulations that reduce the flexibility available in the search for solutions to this problem.

4. Ministers affirmed that the necessary conditions to resolve the debt problem in a cooperative environment are to improve the functioning of the international financial system and ensure the coordination of economic policies in industrial countries so as to permit a durable expansion, stable and remunerative prices for primary products, including oil, and a reduction in real interest rates to normal levels, all in the context of diminished protectionism and subsidies and the elimination of fiscal imbalances.

5. Ministers reiterated that the attainment of a stable, durable, and equitable solution to the debt problem transcends market mechanisms; noted that indeed the most relevant elements of the problem are the inappropriate economic policy actions being implemented by the industrial countries; but considered that a resolution of the problem requires the joint political will of creditor and debtor countries to improve the functioning of the present system; and expressed the hope that, through such urgently needed and symmetric cooperation, a durable solution to the debt problem within a global framework will be found, including new and imaginative solutions that are conducive to a quick recovery of the development process.

6. 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.

7. Ministers recommended that account be taken, inter alia, of the need to reverse the flow of resources abroad from developing countries, to obtain new financial support at low and stable real interest rates, to extend the repayment terms and grace periods, and to relate external debt servicing to export receipts.

8. Ministers noted that the Baker initiative includes some positive elements in that:

a) it recognizes that no lasting solution to the debt problem is possible unless growth is restored;

b) it takes note of the present high level of interdependence in the world economy;

c) it implies that governmental participation will facilitate the initiation of the sought-after dialogue; and

d) it acknowledges the importance of the participation of multilateral financial institutions and commercial banks in achieving a long-term solution to external debt problems in such a way that would take due account of growth requirements of debtor countries.

However, they stressed that the initiative should be adapted to the needs of countries, including resources necessary to offset the drop in oil prices and in other primary products as well as those real resources required to achieve growth; emphasized that it should take into account the reiterated demand to introduce significant changes in current financial agreements, especially with respect to the interest rates charged by creditors; considered that it is not reasonable to attempt to expand the coverage of conditionality, particularly when resources of the Special Disbursement Account are involved, avoiding, in this connection, the introduction of cross-conditionality that would be associated with the implementation of a "general policy framework"; expressed the view that harsher adjustment policies are not reasonable, since they are already growth constraining, and that efforts should be made not to maintain the present asymmetry of the adjustment process and that the present flawed approach must therefore be reviewed; and suggested that the resource needs for a general capital increase of the World Bank, as well as for replenishments of IDA and regional development banks' funds should be reviewed in accordance with the proposals and criteria put forward by the Group of Twenty-Four.

9. Ministers reiterated that the IMF must seriously consider putting in place adequate resources to deal with medium-term balance-of-payments problems in developing countries and revitalize the use of the Extended Fund Facility.

10. Ministers emphasized the urgent need to establish with additional resources a new credit facility in the IMF (or to expand the Compensatory Financing Facility) to alleviate the debt-service burden caused by real interest rates that are higher than the normal historical levels.

11. Ministers reiterated that the Fund, together with other multilateral institutions, should develop new mechanisms to help those countries which, because of adverse exogenous factors, are not able to repay their obligations to these institutions according to a fixed schedule.

12. Ministers stressed that the Development and the Interim Committees should discuss the strategy for addressing the debt problem, and should examine all its aspects, including the re-examination of its diagnosis; study mechanisms to alleviate the debt burden and provide additional resources in the context of growth and development; and consider specifically the problems of low-income developing countries. Furthermore, Ministers urged the Development Committee to take new initiatives that could contribute to a better understanding of the problems and their relationship to the reform of the international monetary system.

13. Ministers requested the International Monetary Fund to liberalize the rules governing the Compensatory Financing Facility in order to enhance its automatically, enlarge its coverage to the full extent of the shortfall, to include changes which are not clearly perceived to be reversible in terms of trade, and to accommodate severe and sudden adverse changes in the circumstances of several primary commodity exporters, including at this time, exporters of petroleum, and to seek ways of raising additional financing for this purpose. In this context, Ministers recalled the establishment of an oil facility in 1974 in response to the sharp rise in oil prices.

14. Ministers expressed their conviction that in view of the deterioration of the debt situation, the continuous utilization of present market interest rates, plus other fees, can only threaten the adjustment efforts of many countries by worsening their already heavy debt servicing problems.

The repayment capacities of debtors could be strengthened if mechanisms and strategies could be found to maintain the flow of credit together with a reduction of interest rates below the market level on past debt. Unless this is undertaken, all efforts at refinancing the debt will be neutralized and new debt will accumulate at an unsustainable pace. In this respect, and in order to provide incentives for new flows of funds to debtor countries, Ministers recommended that, for countries heavily indebted to the international banking system, the possibility of differentiating existing debt from new credit flows should be explored for the purpose of determining interest payments.

15. Ministers stressed that the debt problems of low-income countries -- especially in Sub-Saharan Africa -- have 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. The Ministers therefore expressed the wish that the international community consider more innovative solutions, including conversion of part of their debt into grants and long-term rescheduling on less onerous terms. These solutions should not in any way reduce concessional flows to other low-income countries, including those which are in the process of implementing adjustment programs involving structural changes.

Transfer of Resources

A. Official Development Assistance

16. Ministers expressed concern at the declining trend in ODA at a time when low-income countries are struggling to solve the problem of poverty alleviation and development, and stressed the need for a substantial increase in the transfer of concessional resources to these countries.

17. Ministers reiterated the conclusions of the Task Force on Concessional Flows that donor countries should exert redoubled efforts to increase the supply of ODA as a matter of urgency; and urged that an implementable program be drawn up.

18. Ministers deplored the fact that the growth of ODA has not even kept pace with economic growth in developed countries; remarked that the forecast annual growth in real terms of ODA is an extremely inadequate and unsatisfactory response to the poverty and needs of all low-income countries and, in this context, urged all donor countries to adopt a timetable for reaching the target of 0.7 percent ODA/GNP ratio, paying due regard to the target established for low-income countries.

19. Ministers urged the attainment of the required political consensus to facilitate special allocations of SDRs over the next two years, with industrial countries forgoing their shares. The amount for the first year could be $25-30 billion, and the second-year requirement should be determined in the light of circumstances.

B. International Development Association

20. Ministers reiterated the importance of the role played by IDA in promoting economic development, increasing productivity, and alleviating poverty in low-income countries;

expressed disappointment at the inadequate level of IDA VII, noted that the mid-term review has not fulfilled its original purpose of considering ways of supplementing IDA VII resources; deplored suggestions for any hardening of IDA terms at a time when the volume of such flows has diminished; emphasized that resources made available to IDA through successive replenishments should represent a substantial increase in real terms; and urged that the imbalance between the needs of all low-income countries and availability of concessional resources should be redressed in the replenishment of IDA VIII.

C. Sub-Saharan Africa

21. Ministers reiterated their grave concern over the serious economic conditions prevailing in Sub-Saharan Africa, the spread of poverty, the natural disasters and ecological deterioration, and the decline in per capita income levels since 1980 as well as the somber prospects for the region.

22. Ministers pointed out that, in view of the enormous needs of Africa, the size of the Special Facility for Sub-Saharan Africa in the World Bank is grossly inadequate, and urged those countries that have not yet contributed to the Facility to join other donors; and stressed that the Facility should be a complement to, and not a substitute for, other sources of official development assistance or other financing alternatives presently available to developing countries.

23. Ministers noted that the projected size in real terms of ODA flows will have adverse consequences on investment and economic growth of sub-Saharan African countries and aggravate their already high debt-servicing burden; and in this context they called for a substantial increase in bilateral and multilateral official assistance, and requested all donors to increase financial flows to the sub-Saharan countries and in particular to increase bilateral and multilateral ODA.

D. The Use of Trust Fund Reflows

24. Ministers noted the recommendation of the Interim Committee at its meeting in Seoul that the terms and conditions for the use of Trust Fund reflows should be similar to those originally applied to loans from the Trust Fund.

25. Ministers deplored that the fact that recent developments in the IMF Board have shown that, through suggested changes in the 1980 decision on Trust Fund operations, it is likely that, in using Special Disbursement Account resources, more conditionality would be introduced and cross-conditionality would emerge, especially if a "general policy framework," worked out jointly by the Fund and the Bank, has to be a precondition before programs are approved.

26. Ministers expressed appreciation for the statements made by the representatives of China and India that they would not avail themselves of the Facility.

27. Ministers emphasized that the use of the Special Disbursement Account should be additional to other concessional assistance and be managed separately from IDA, World Bank, and other outside programs.

28. Ministers stressed that disbursements of Trust Fund reflows should be quick and not based upon adherence to specific performance criteria, benchmarks, or the attainment of quantitative targets under arrangements with eligible countries.

29. Ministers cautioned that the recommendation of the Interim Committee at the Seoul meetings to supplement the Trust Fund reflows with other resources should not lead to the creation of mechanisms for exerting concerted pressure on borrowing countries. In this context, Ministers also stressed that IDA flows should not be burdened with any additional conditionality.

E. IBRD Lending Prospects and Their Implications for Future Financial Requirements

30. Ministers reiterated that the role of the Bank is one of commitment to development growth and poverty alleviation as enshrined in the Articles of Agreement. They expressed concern about the undue emphasis on the macroeconomic framework in borrowing countries in connection with quick-disbursing facilities, and cautioned against linking the size of Bank assistance to increased conditionality or cross-conditionality with the IMF.

31. Ministers welcomed the strong support given by the Development Committee for a substantial expansion in the Bank's lending program so that it to respond more effectively to the needs of its borrowing members; and they urged the World Bank to present its concrete requirements and a timetable for a general capital increase for consideration by the Development Committee at its April 1986 meetings.

32. Ministers cautioned that various stretching mechanisms, including adjustment in repayment periods and loan sales, are no substitute for an enlarged capital base.

33. Ministers welcomed the proposal for revising repayment terms for future IBRD commitments to take into account country and project circumstances, and they urged that such liberalization should apply to all low-income countries and also middle-income countries whose debt servicing poses problems; in this connection, Ministers also urged that other internal constraints on Bank policies, like artificial limits to cost sharing and country ceilings, should be applied flexibly, in keeping with the Bank's role as a development institution.

34. Ministers pointed out that in estimating the additional capital requirements of the Bank, account should be taken of the challenges in the second half of the 1980s, in particular, the need to provide assistance to all developing member countries; the difficult economic situation facing many IBRD borrowers, including the serious debt-service burden which continues to weigh heavily on many member countries and is projected to do so for several years to come; the continuing constraint on flows of capital from other sources; the catalytic role of the Bank; and the prospect that, in the absence of a substantial expansion in the level of lending, aggregate net disbursements and net transfers would become insignificant within a few years time.

35. Ministers emphasized that the resource implications of the Bank's role should be based on a lending growth rate of at least 6.2 percent per annum in real terms, which would enable net transfers to remain at reasonable levels; and, in this context, they urged that a lending level of

$21.5 billion per annum by FY 1990 should be the minimum consistent with the developmental role of the Bank.

36. 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.

F. Regional Development Banks

37. Ministers expressed concern over the weakening of support for the regional development banks in some industrial countries at a time of declining commercial bank credits to developing countries. In their view, regional development banks have an important role to play in assisting countries to cope with present problems, while preserving their basic characteristics and policies to support projects and sectoral programs.

Progress Report on the G-10 and G-24 Reports on the Functioning of the International Monetary System and Follow-up on Reform Proposals

38. 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 Executive Board of the IMF.

39. Ministers expressed disappointment at the lack of progress in reaching agreement on concrete programs of action, and indicated their expectation that these might be achieved before the April meetings.

40. 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 improvement of the international monetary system and 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.

41. Ministers noted that to ensure the construction of a consistent set of proposals on each topic dealing with the reform of the international monetary and financial system for the purpose of negotiation and agreement by the Interim Committee, and Development Committee, 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 having taken into account the implications and interconnections of these proposals.

42. Ministers reaffirmed that an effective reform of the international monetary and financial system requires the convening of an international conference and expressed the view that the proposed representative Committee of Ministers will be an effective step in preparing for such a conference.

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Expression of Condolence

Ministers observed a moment of silence in memory of the late Prime Minister of Sweden, Olof Palme.

Appreciation to Argentina

Ministers expressed their deep appreciation to the Argentine Government and to the Government and people of Buenos Aires for their warm and gracious hospitality in hosting the meetings of the Group of Twenty-Four.

Place and Date of Next Meeting

The next meeting of the Group of Twenty-Four will take place April 6-8, 1986, at Fund Headquarters, Washington, D.C.