INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

Thirty-Seventh Meeting of Ministers

COMMUNIQUÉ

September 26, 1987

1. Ministers of the Group of Twenty-Four on International Monetary Affairs held their Thirty-Seventh Meeting in Washington, D.C. on September 26, 1987, Mr. Svetozar Rikanovic, Federal Secretary for Finance, Yugoslavia, was in the Chair, with Mr. L. C. Bresser Pereira, Minister of Finance, Brazil, and Mr. Jean-Pierre Lemboumba-Lepandou, Gabon, as Vice-Chairmen. The Meeting was attended by Mr. M. Camdessus, Managing Director, International Monetary Fund, Mr. B. B. Conable, President, the World Bank, Mr. Bernard T. G. Chidzero, Chairman, Development Committee, Mr. Rafeeuddin Ahmed, Under Secretary General, United Nations, K. K. S. Dadzie, Secretary General, UNCTAD, Mr. Sidney Dell, Project Director, UNDP/UNCTAD, Mr. Olivier Castro, Executive Secretary, Central American Monetary Council, Mr. Y. Seyyid Abdulai, Director General, OPEC, Mr. Isaac Cohen, Director, Economic Commission for Latin America and the Caribbean, Mr. Subhi Frankool, Deputy Governor, Central Bank, Iraq, Mr. Mohamed Berrada, Minister of Finance, Morocco, Mr. A. N. Hersi, Islamic Development Bank, Mr. Osama J. Faquih, Deputy Minister for International Economic Cooperation, Saudi Arabia, Ms. Qiu Qing, Deputy Governor, People's Bank of China, attended as invitee.

2. The meeting of Ministers was preceded on September 24 and 25 by the Fiftieth Meeting of Deputies of the Group of Twenty-Four with Ambassador Gavra Popovic, Yugoslavia, as Chairman and Mr. Carlos Alberto Amorim, Jr., Brazil, and Mr. Jean-Paul Leyimangoye, Gabon, as Vice-Chairmen.

World Economic Outlook

3. Ministers noted that the prevailing world economic trends are charac-terized by slowing growth of output and international trade, high and increasing interest rates and uncertainties regarding exchange-rate movements, further declines in the total financial flows to developing countries and intensified protectionist pressures. Ministers expressed their deep concern over the adverse consequences of these developments for the growth prospects of the world economy in general and of the developing countries in particular.

4. Ministers pointed out that the resource outflows as a result of high debt service and deteriorating terms of trade have contributed to a prolonged decline in income in many developing countries. The 1980s have experienced the most severe setback to the development process in the last three decades; indeed, to the developing countries it is fast becoming a 'lost decade.'

5. Ministers noted at this critical juncture for the world economy some indication of better international understanding as evidenced by the final act of the UNCTAD VII as well as by positive signs given by some of the industrial countries, mainly regarding the debt of low-income countries. Nevertheless, Ministers recalled the responsibilities of industrial countries to ensure a more promising environment for the growth and exports of developing countries, which together with these countries' strengthened national economic policies and measures for raising savings and investment and for diversifying their production -- if supported by adequate external financing and access to markets -- should constitute a basis for cooperative actions by all governments in revitalizing the world economy and inter-national trade.

6. Ministers emphasized that any optimism regarding growth projections in the period ahead can be justified only if all parties concerned assume their responsibilities for the attainment of adjustment with growth; Ministers underlined that resumption of economic growth in the developing countries will in turn enhance their capacity to service external debt and also to increase their imports from industrial countries; Ministers stressed that adjustment with growth is possible only if net flows of external resources to developing countries are increased and trade barriers against their exports are removed. They reaffirmed that more effective international policy coordination could help sustain growth of output and employment both in industrial and developing countries.

7. Ministers welcomed the introduction of more realistic alternative medium-term scenarios in the latest Fund world economic outlook exercise, in view of the past tendency of such exercises to contain overly optimistic projections, and they hoped that these scenarios, as possible future outcomes, would be given more prominence in future exercises.

8. Ministers suggested that the Fund's alternative medium-term scenarios should provide for a needed higher per capita output growth rate in the developing countries. For the attainment of such a rate it is necessary to establish corresponding policy settings as well as foreign capital requirements and to take effective measures for recycling surpluses for the purpose of satisfying these requirements.

Use of Indicators in Fund Surveillance

9. Ministers underlined that policy coordination and remedial domestic policy actions by industrial countries are far from adequate, with continued adverse impact on the world economy, and they noted with concern that such policy coordination efforts have so far been limited to attempts at removing the immediate, most pressing tensions, while true efforts in moving the world economy toward the desired path of sustained global growth with increased stability are as remote as ever. In this context, Ministers reaffirmed that stronger remedial action, rules and practices aimed at strengthening the Fund's surveillance on the major industrial countries are essential, in order to bring about more symmetry in the international adjustment process.

10. Ministers welcomed the introduction of indicators in medium--term scenarios in the World Economic Outlook but noted that their use could be improved to the advantage of the entire Fund membership only if the alternative policy settings -- on which such scenarios are based and which should help identify the needed policy corrections in the major industrial countries -- are

clearly set out and take into account fully the needs and requirements of the developing countries.

Debt Situation and Strategy: Developments and Prospects

11. Ministers expressed deep concern with the evolution of the debt crisis. Low-income countries, as well as middle-income debtor countries, are facing exceptional social, economic, and political difficulties. The adoption of austere and painful adjustment programs has brought a significant reduction in current-account deficits, but such an adjustment has not brought about a solution to the problem. Debt indicators of both groups of countries have further deteriorated and remain at historically high levels, while net resource flows have continued to decline; private banks have increased capital and allocated funds for losses and reduced their exposure to the developing world. But they have no more assurance today of being paid in full than they had in 1982. Indeed, there is a growing sentiment in the market that part of the debt is uncollectable.

12. Ministers pointed out that the three building blocks of the present strategy show serious inconsistencies. Notwithstanding the fact that debtor countries have through serious adjustment efforts achieved important improvements in their non-factor payments current-account balance, they have not been able to reconcile debt service with growth. Also, the international economic environment, which should have supported the adjustment effort by debtor countries, has not developed in a favorable manner, while prospects for voluntary lending to debtor countries are poor and are not improving.

13. Ministers acknowledged that under the present circumstances, and if no changes are introduced to the debt strategy, the prospect may well be that of a further overall worsening of the debt situation. In view of the dismal outlook for both world economic growth and international trade, adverse terms of trade and rising interest rates as well as added debt service burden arising from changes in the currency composition of debt, an increasing number of debtor countries may find themselves in a situation in which they may be forced to limit or suspend debt payments, a situation which is already taking place. Such a scenario does not seem to be in the interest of any of the parties involved in the debt issue.

14. Ministers pointed out the need for, and the feasibility of, new approaches to the debt problem. The market judgment is that a part of the existing debt is far below its nominal value. The new market reality, inter alia, opens the way for a long-term solution to the debt problem through the adoption of new, innovative mechanisms which may bring about a change in approach from mere debt reschedulings to debt reconstruction, which may encompass: reduction of the debt overhang, by taking into account, among other factors, the market value of the present stock of debt through such procedures as negotiations among parties involved, a new debt management facility, securitization of parts of the debt, and buy-back mechanisms; reduction in interest rates to normal historical levels; and protection of adjustment efforts from the impact of negative external shocks.

15. Ministers considered that a new approach on the part of the multilateral financial institutions is also required as they have to play a major role in supporting, with adequate finance, growth-oriented programs designed by debtor nations. They should play a key role in 'debt

reconstruction" in different ways, including a more flexible approach in dealing with financial obligations to these institutions.

16. Ministers welcomed the recent extension of maturity and grace periods in rescheduling the debt of low-income countries by Paris Club creditors, expressed concern about the reluctance by some creditors to reduce interest rates on existing debt and called on all official creditors from industrial countries to convert the remaining ODA loans to grants and reduce interest rates on existing debt of these countries.

17. Ministers emphasized the need for exploration and development of new mechanisms to ensure future financing for growth, taking into account, in particular, the recycling of resources from surplus countries.

18. Ministers underlined that an effective solution to the debt problem transcends the financial sphere itself and can be found only through increased concerted action by, and cooperation among, the parties involved. The Group of 24 has already insisted on the need for an expanded dialogue among industrial and developing countries and has proposed different sorts of initiatives. This dialogue is needed now more than ever. A real concerted effort is required to remove the prospect of a deadlock and to pave the way for a cooperative solution to the debt problem. To this end, consultations should take place between now and, preferably, the next Spring meeting of the Group of 24 to find a suitable way to undertake this dialogue.

Enhancement of the Structural Adjustment Facility (SAF)

19. Ministers recalled the understanding at the time of the establishment of SAF regarding additional resources to be catalyzed from other non-Fund sources to supplement the Trust Fund reflows. They deplored suggestions for further tightening of conditionality in the event the proposed enhancement of SAF resources materializes.

20. Ministers stressed that SAF resources should be substantially enlarged in volume if the facility is to make a genuine contribution to adjustment and development of the low-income countries. In this context, Ministers welcomed the Fund Managing Director's proposal for tripling the resources of the SAF but expressed concern about the slow response of donors and creditors in securing the resources needed, and urged that an agreement on this proposal be reached as soon as possible to make the enhanced SAF operative by January 1, 1988 and that the increase be in a manner that ensures genuine additionality in concessional flows to low-income countries.

21. Ministers highlighted the urgency of increased use and quick disburse-ments of SAF resources by applying minimal conditionality.

22. Ministers emphasized that SAF-eligible countries should continue to have access to the Fund's general resources and that the SAF should not become a substitute for other Fund facilities; and they urged that the cost of using the Fund's general resources for low-income countries be reduced through the establishment of an interest-subsidy facility.

Access Limits to Fund Resources

23. Ministers noted with grave concern that the present access limits and, even more so, the actual Fund practice to keep effective access well below formal limits, prevent the Fund from discharging its role in fostering adjustment with growth as well as from playing a greater role in solving the deepening debt crisis.

24. Ministers emphasized that the Fund, by enlarging financial support and by increasing access limits to its resources, will at the same time be performing its role in supporting growth-oriented adjustment.

25. Ministers reiterated the need for restoring larger access to the Fund's resources under special facilities, the compensatory financing facility in particular.

Ninth General Review of Quotas

26. Ministers requested that the work on the Ninth General Review of Quotas be concluded as soon as possible, thus creating a strong positive signal of international cooperative efforts that would truly support the Fund's readiness and ability to effectively deal with the already evident and possible future challenges, consistent with the Fund's central respon-sibilities for orderly functioning of the international monetary system.

27. Ministers urged that the share of developing countries in Fund quotas be increased.

The Question of Allocation of SDRs

28. Ministers deplored the fact that the opposition by a few major industrial countries has prevented new SDR allocations since the last basic period, thereby hindering the Fund from playing its role with regard to international liquidity, despite overwhelming evidence that the conditions of the Articles of Agreement are fully satisfied.

29. Ministers noted with grave concern that the lack of a new SDR alloca-tion has seriously undermined efforts aimed at the revival of the global economy and, in particular, has constrained the liquidity of a large number of developing countries.

30. Ministers called for a substantial new SDR allocation, its magnitude to be consistent with keeping the growth of international reserves in line with the projected growth of imports.

Proposals for Action for Low-income Countries Facing Exceptional Difficulties, Especially the Seriously Indebted Countries in sub-Saharan Africa

31. Ministers recognized the bold and intensive measures undertaken by the governments of low-income countries, particularly those in sub-Saharan Africa, for reforming their economies with a view to achieving sustained growth; they emphasized that such efforts cannot be sustained unless supported by additional resources and, in this connection, they reiterated that the development crisis facing low-income countries --particularly those in sub-Saharan Africa -- and the social,

economic and political costs of adjustment necessarily require that the highest priority be given to their problems through the allocation of substantial additional net resources.

32. Ministers strongly supported the proposals and initiatives from the World Bank and the Fund that are geared to the resumption of growth in the low-income countries facing exceptional difficulties, and they called on donors to immediately consider their early implementation, bearing in mind the urgent need for additionality.

33. Ministers commended those industrial countries which have taken actions -- such as the conversion of existing loans to those with more concessional terms or to outright grants -- to ease the debt burden of some developing countries.

34. Ministers strongly supported the proposal that all industrial countries convert all remaining outstanding ODA loans to grants or grant concessions in interest rates on existing debt by adjusting retroactively the terms of ODA loans.

35. Ministers requested commercial banks to implement innovative solutions that would ease terms of existing loans to low-income countries where the debt they owe to commercial banks is significant.

36. Ministers expressed concern at the declining trend in lending by the World Bank for agricultural and rural development and, in view of the importance of this sector, they urgently called for a reversal of this trend and for an increase in lending to this sector.

37. Ministers urged that a thorough review of the design and implementation of structural adjustment programs be undertaken and that, where country circumstances render implementation of a full structural adjustment program inappropriate, the approach of undertaking a series of investment projects and sector adjustment programs be adopted.

38. Ministers noted that the share of non-project lending in the World Bank has increased substantially since 1981, and they urged that, in view of the need for additional investments with long term positive benefits in low-income countries, a more realistic balance in favor of project lending be reached, which in some cases would require a more flexible approach by the Fund as far as its conditionality is concerned.

Review of Growth-oriented Programs in the Heavily Indebted Middle-Income Countries

39. Ministers strongly emphasized that the time has come to recognize that the present debt strategy is not viable under current economic conditions nor is it compatible with adjustment with growth. There is a clear inconsistency between what is recognized as necessary by the current debt strategy and the actions taken by industrialized countries and commercial banks. Major economic imbalances persist in industrialized countries, preventing an adequate expansion of the world economy. Voluntary net lending by commercial banks neither exists nor is in prospect. In view of this, the debt strategy must be recast to reduce debt-service payments in support of adjustment with growth. Ministers drew attention to the fact that, if the economic situation of the debtor countries worsens, all parties involved, both debtors and creditors, as well

as the international financial system, would suffer serious adverse consequences.

40. Ministers indicated that the burden of adjustment is supported dispro-portionately by the indebted countries, resulting in a substantial negative net transfer of resources from debtor countries as well as heavy economic, social and political costs associated with declines in output, employment, and per capita income; therefore, Ministers highlighted the urgency of reducing debt-related transfers and of generating substantial new net financial flows from private, official and multilateral sources to the heavily indebted middle-income countries under terms that should be consistent with growth targets and a higher level of investment and technology, as well as an acceptable debt-service burden.

41. Ministers emphasized that growth-oriented adjustment programs should be targeted to mitigate social costs as well as deterioration in capital structure.

42. Ministers underlined that since the inception of the debt crisis, the implementation of the existing debt strategy in countries undertaking adjustment without adequate financing has led to either inflationary growth or recession, both of which are no longer socially or politically tenable.

43. Ministers pointed out that faster complementary adjustment in industrial countries, with freer access to their markets for the developing countries, will be beneficial to both developing and industrial countries, given the nature of the large and unsustainable imbalances in the world economy, most visible in the patterns of current-account disequilibria among key industrial economies and in the massive net overall transfer of resources from developing to industrial countries. Ministers emphasized that an orderly unwinding of these two sets of related disequilibria requires concerted policy actions by the industrial countries and a far higher degree of international cooperation, with a bold medium-term perspective.

44. Ministers reiterated the proposal put forward in previous Group of 24 communiqués requesting the creation of a Task Force of the Development Committee consisting of members representing developing and industrial countries to report shortly on the necessary guidelines for solutions to the debt problem.

The Capital Requirements of the World Bank associated with its Expanded Lending and Catalytic Role

45. Ministers reiterated that the primary role of the World Bank should continue to be investment-related lending for development, growth and poverty alleviation as determined in its Articles of Agreement.

46. Ministers expressed concern that in an overall environment of declining financial flows to developing countries, the World Bank has lowered its lending projections. In this context Ministers called on the World Bank to redouble its efforts to expand its lending by liberalizing its approach to conditionality and loan pricing.

47. Ministers expressed concern at the declining net transfers from the World Bank to the

developing countries, and Ministers emphasized that the Bank should strive to achieve a lending and disbursement program that would provide for reasonable net transfers to developing countries.

48. Ministers emphasized that the increased needs of many developing countries for accelerated disbursements should be met by designing fast disbursing loans without burdening the borrowers with undue conditionality or cross conditionality so that any adverse impact on their social and economic development is minimized.

49. Ministers expressed concern that the Bank's lending program is being constrained by the inadequacy of capital and they urged that prompt steps be taken for completing negotiations for a substantial General Capital Increase within the current fiscal year as a matter of urgency, allowing at least a doubling of its current capital and covering growth in lending for at least six years and also providing for liberalization in repayment terms by reverting to the pre-1976 annuity type pattern, particularly for low-income countries.

50. Ministers underlined that all developing countries should benefit in an adequate and equitable manner from the Bank's catalytic role in mobilizing resources, including its advisory services and technical assistance.

The Status and Adequacy of Resource Transfers to the Developing Countries

51. Ministers regretted that the report on adequacy of resource transfers to all developing countries as requested by the Development Committee at its last two meetings has not so far been completed, and Ministers called on the World Bank to urgently complete the work and present its reports for consideration by the Development Committee at its next meeting.

52. Ministers expressed serious concern at the stagnation in and dismal prospects for ODA flows at a time when low-income countries are struggling to deal with problems of poverty alleviation and development, and they stressed the need for a substantial increase in the transfer of concessional resources to these countries. In this connection, Ministers deplored the fact that growth of ODA has not kept pace with growth in donor countries and they called on the donor countries to take urgent steps to achieve the internationally agreed target of 0.7 percent of GNP and, in particular, within the overall target of 0.7 percent, to allocate 0.15 percent of their GNP to least developed countries, and to put ODA on an assured, continuous, and predictable basis.

53. Ministers urged that early steps be taken for implementing the recommendations of the Task Force on Concessional Flows which called for redoubled efforts to expand the flow of ODA as a matter of urgency.

54. Ministers expressed grave concern over the continuing negative transfer of resources to developing countries and they called for urgent steps to arrest and reverse this trend. To that end, Ministers emphasized the crucial role of expanded official flows and multilateral lending at a time when the needs of developing countries have increased and financial flows from other sources are declining, and they urged that given the reverse financial flows to the Fund and declining net flows from the World Bank, immediate steps for augmenting the resources

available to these institutions be taken to enable them to make an adequate and effective contribution to adjustment and development in developing countries.

55. Ministers emphasized that implementation of growth-oriented programs in many developing countries will continue to be strongly jeopardized by insufficient supporting finance and that resolution of the debt problem will require considerable augmentation in net financial flows from official and commercial sources.

56. Ministers reiterated that regional development banks have an important role to play and they deplored the proposals of some industrial countries to link capital replenishments to changes in the basic agreements under which these institutions have been created and to try to impose higher and new types of conditionalities.

The Impact of the Industrial Policies of Developed Countries on the Developing Countries

57. Ministers strongly deplored the protectionist policies of industrial countries which, instead of immediately applying the stand-still and roll-back commitments to which they subscribe in the Declaration of Punta del Este, continue to introduce new or additional export subsidies and to strengthen existing ones and introduce new trade barriers to imports of industrial products from developing countries. Ministers expressed deep concern that the adjustment efforts and growth prospects of developing countries have been drastically hindered and jeopardized by the protectionist practices of some industrial countries, practices that are totally in conflict with the proclaimed policies of the global adjustment process.

58. In this context, Ministers called on the industrial countries to undertake effective adjustment on both the macroeconomic and structural fronts with a view to improving their economic performance.

59. Ministers urged the Fund to actively pursue this very important problem with its industrial country members, in view of their larger impact on world trade, during bilateral consultations with them.

60. Ministers called on the Fund and the Bank to prepare the report which should provide an in-depth study on the impact of industrial policies of industrial countries on developing countries requested in the 1987 Spring communiqué of the Development Committee. This study should cover the international resource allocation aspects of the industrial countries' protectionism and subsidy policies and their effect on the growth prospects of developing countries so that definite recommendations can be put to the Development Committee.

6l. Ministers welcomed the encouraging prospects that have arisen in relation to stabilization of commodity prices following the support by several industrial countries for setting up a common fund for primary products and urged all the industrial countries to join the fund.

62. Ministers also called on the industrial countries to improve access to their markets by developing countries' exports, including commodities and manufactured and semi-manufactured goods. In this connec-tion, Ministers welcomed the efforts of the Managing Director of the Fund

and the President of the Bank to encourage industrial countries to move in this direction. Further, Ministers urged that UNCTAD be requested to present a special report to the Development Committee on the progress achieved in this regard.

63. Ministers emphasized the detrimental effects on the developmental and adjustment efforts of developing countries of so-called 'voluntary export restraint' practices implemented especially but not solely in footwear, chemicals and textiles. A number of other industrial products of developing countries for household consumption have also been hard hit in a similar way. Additionally Ministers pointed out that the frequency of countervail-ing actions against developing countries' products is rapidly increasing, while the frequency of anti-dumping cases has reached alarming proportions.

64. Ministers called on the industrial countries to improve the coordina-tion of their policies also by relying on indicators that would point out the negative consequences of their protectionist policies for imports from developing countries as well as the cost of the associated misallocation of resources in the industrial countries themselves.

Review of the World Bank's Graduation Policy

65. Ministers re-emphasized the call on the IBRD to implement the 'State-ment on Graduation' unanimously adopted by the Executive Directors on September 11, 1984, according to which graduation can only take place with the agreement of the country concerned and is subject to review if warranted by changed circumstances. Ministers expressed grave concern about the fact that recent Bank practice seems to contravene the 'Statement on Graduation.

Review of Discussions on the Role of the Fund in Adjustment with Growth

66. Ministers strongly urged that the Interim Committee undertake the discussion of the role of the Fund -- based on the proposals contained in the Reports of the Group of 10 and the Group of 24 -- at its next Spring meeting. To that end Ministers suggested that the comprehensive evaluation of the proposals in the Reports be made without delay by the Fund's staff, but they pointed out that this is possible only through an integrated approach, by examining all the proposals together, keeping in view their inter-relationship.

Reform of the International Monetary and Financial System

67. Ministers reiterated the call for the creation of a representative Committee of Ministers from developing and industrial countries to examine the proposals of the Group of 10 and the Group of 24 on the reform and improvement 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 Interim and Development Committees and should conduct its business on the basis of consensus.

68. Ministers reiterated 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 mentioned in the preceding paragraph will be an

effective step in preparing for such a conference.

Program of Research and Studies and Relations with UNCTAD/UNDP

69. Ministers very much regretted that consultations with UNDP have not yet resulted in an agreement on the continuation of its technical support to the Group of Twenty-Four. Ministers attached great importance to this matter. UNDP's support for the Group's research and studies has been highly productive, and Ministers expressed their deep appreciation to the UNDP and to UNCTAD for the efficiency with which they have responded to the Group's needs over the past several years. This is not the time for changes in the modalities of the technical underpinning of the Group's work. Too much is at stake. It is vital for the international dialogue on these matters to be maintained. Ministers, therefore, urged the UNDP to assure the fruitful continuation of its support by including this project in its current program cycle, and restoring the volume of funding to adequate levels. Ministers recommended to the Chairman and the Bureau of the Group to continue consultations with a view to securing an extension of UNDP cooperation. The stage has been reached at which new and innovative departures will be needed in achieving adjustment with growth. Several studies would have to be made, including, as an immediate priority, a study of the role of the World Bank in adjustment with growth, as well as studies on surveillance and the debt crisis.