INTERGOVERNMENTAL GROUP OF TWENTY-FOUR
ON INTERNATIONAL MONETARY AFFAIRS

THE FORTIETH MEETING OF MINISTERS

COMMUNIQUÉ

April 02, 1989

1. Ministers of the Group of Twenty-Four on International Monetary Affairs held their Fortieth Meeting in Washington, D.C. on April 2, 1989. Mr. Jean-Pierre Lemboumba-Lepandou, Minister of Finance, Gabon, was in the Chair, with Mr. Masoud Mozayani, Vice Governor, Bank Markazi Jomhouri Islami Iran, Islamic Republic of Iran, and Mr. Luis Fernando Alarcón, Minister of Finance, Colombia, as Vice-Chairmen. The meeting was attended by Mr. M. Camdessus, Managing Director, International Monetary Fund, Mr. B. B. Conable, President, World Bank, Mr. Bernard T. G. Chidzero, Chairman, Development Committee, Mr. Razali Ismail, Chairman, Group of Seventy-Seven, Mr. Rafeeuddin Ahmed, Under Secretary General, United Nations, Mr. K. K. S. Dadzie, Secretary-General, UNCTAD, Mr. Olivier Castro, Executive Secretary, Central American Monetary Council, Mr. Taiwo Idemudia, Head, Economic Section, OPEC, Mr. Y. Seyyid Abdulai, Director-General, OPEC Fund, Mr. Martine Guerguil, Economic Commission for Latin America and the Caribbean, Mr. Assibi Abudu, Islamic Development Bank, Mr. Hikmat 0. Al-Hadithy, Minister of Finance, Iraq, Mr. Mohamed Berrada, Minister of Finance, Morocco, and Mr. Hamed Al-Sayari, Governor, Saudi Arabian Monetary Agency, Saudi Arabia; Ms. Qiu Qing, Deputy Governor, People's Bank of China, People's Republic of China, attended as invitee.

2. The meeting of the Ministers was preceded on March 31, 1989 by the Fifty-Third Meeting of the Deputies of the Group of Twenty-Four with Mr. Fabian Ovono-Ngoua, of Gabon, as Chairman, and with Mr. Masoud Mozayani, of the Islamic Republic of Iran, and Mr. Hernán Mejia, of Colombia, as Vice-Chairmen.

I. Issues Before the Interim Committee

World Economic Outlook and International Economic Policy Coordination

3. Ministers took note of the overall improvement in the economic situation and growth of industrial countries in 1988, but regretted that the great majority of developing countries, especially the most heavily indebted ones and the sub-Saharan African countries, have shared little in this growth.

4. Ministers called on industrial and developing countries alike to undertake policies that enhance growth prospects together with price stability.

5. Ministers pointed out that, in this international effort, the role of industrial countries is crucial, because of their substantial impact on the developing countries. They urged the industrial countries not to rely too heavily on monetary policy instruments, but to make greater use of appropriate fiscal and structural policies conducive to sustainable growth, stable prices, and lower interest rates.

6. Ministers stressed the need for more sustained coordination of industrial countries' economic policies and the major role that the Fund must play in this process in order to ensure that the concerns of developing countries are duly taken into account, and that international adjustment is symmetrical between developed and developing countries.

7. Ministers deeply regretted the trend of the last few years toward negative net transfers from the industrial world and international financial institutions to developing countries, and deplored the strengthening of protectionism in many industrial countries.

8. Ministers expressed concern that the developing countries continued to experience a significant reduction in their terms of trade, a sharp increase in international interest rates, as well as a decline in their per capita GDP in Africa and Latin America.

9. Ministers emphasized that the developing countries' adjustment efforts need to be supported and sustained by larger external financing, debt relief, greater openness of world markets, and policies of industrial countries that promote exchange rate stability and lower interest rates.

Developments in the Debt Situation and Strategy

10. Ministers pointed out that the overall external-debt situation is critical. Debt-service ratios remain high and unsustainable, and massive negative net resource transfers aggravated by high and rising international interest rates, constitute a major constraint on the development prospects of developing countries.

11. Ministers called attention to the fact that the prevailing high level of external debt service of developing countries is absorbing a large and growing portion of their external and domestic resources and is undermining growth-oriented adjustment.

12. Ministers reaffirmed that the satisfactory resolution of the debt problem is essential for the successful pursuit of structural adjustment programs.

13. Ministers noted with interest the growing recognition by the international community of the need to reduce the existing debt stock and debt-service burden, thus enhancing creditworthiness. Ministers welcomed the initiatives recently announced, and urged that they should lead to additional resources and should materialize and be made operational as soon as possible to reverse the massive net transfers of resources from developing countries.

14. Ministers reaffirmed that the Fund and the World Bank, in the exercise of their catalytic roles, must continue to support market-based initiatives involving debtors and creditors which are aimed at transferring the advantages of market reductions in debt to the debtor countries.

Ministers invited the creditor governments to conduct an urgent review of their tax and accounting regulations which impede market-based options for resolving the debt problem, and to strengthen the Paris Club framework by providing more flexible reschedulings, as well as increased flows of resources, including insurance coverage and guarantees, on better terms.

15. Ministers indicated that, while the debt is a severe burden on all indebted developing countries, the financing options available to some middle-income countries have not yet been made available to all indebted developing countries. Ministers urged the creditor community, therefore, to show fairness by instituting greater equity in the treatment of debt, so that the opportunities for debt reduction now available are accessible to all parts of the developing world, especially the African countries.

The Ninth General Review of Quotas

16. Ministers reiterated the need to complete the work on the Ninth General Review of Quotas as rapidly as possible.

17. Ministers stressed that the quota increase should properly reflect the growth of the world economy and the need to reinforce the Fund as an institution whose resources derive chiefly from its quotas.

18. Ministers pointed out that an enhanced role of the Fund in solving the debt problem requires a strengthening of its financial base through a substantial quota increase.

19. Ministers expressed deep concern about the possibility of a reduction in the relative quotas and voting power of the developing countries in the Fund, and strongly reiterated that such a reduction must be avoided, chiefly by incorporating a predominant equi-proportional element in the distribution method that is uniformly applicable to all members. There should be a provision for special treatment for countries with very small quotas. Special consideration should also be given to those developing countries whose present quota shares are greatly out of line with their current positions in the world economy, while ensuring that such consideration may be taken into account by adjusting the quota share of industrial countries and not by adjusting the share of either developing countries as a group, or of any individual developing country.

20. Ministers pointed out that the Ninth General Review of Quotas should not entail any reduction in the maximum absolute access of members to Fund resources, in view of the difficulties that many are experiencing in finding the external financing they need for their adjustment programs.

21. Ministers recommended that the prevailing geographic representation of the membership on the Fund's Executive Board be maintained.

22. Ministers reaffirmed the need for an in-depth review of the present quota calculation formulas to take account of need-based variables relevant to the developing countries, so that the formulas reflect the concerns of the majority of the Fund membership.

Overdue Financial Obligations to the Fund

23. Ministers reiterated that the problem of overdue financial obligations to the Fund, the World Bank, and regional banks has intensified.

24. Ministers took note of the progress made in developing and, in certain cases, in implementing the intensified collaborative approach to overdue obligations to the Fund.

25. Ministers regretted once again that the new collaborative approach to overdue obligations to the Fund fails to take into account the scope for implementing statutory provisions such as the rescheduling of overdue obligations or the payment of charges in local currency, and urged that prompt consideration be given to incorporating such measures in the new collaborative approach.

26. Ministers urged that implementation of the intensified collaborative approach should be undertaken with due regard to the members' adjustment efforts and financing constraints.

27. Ministers stressed that the Fund-supported arrangements under the intensified collaborative approach should be based on appropriate program design, keeping in view the social, economic, and political conditions of the countries concerned.

28. Ministers reiterated that, with respect to preventive measures, enhanced Fund conditionality cannot prevent new arrears from emerging. Consequently, it is important to secure a net flow of funds to provide adequate financing for growth-oriented adjustment programs so that they will genuinely and realistically address member countries' balance-of-payments difficulties, which are at the root of overdue obligations to the Fund and other creditors.

29. Ministers stated that remedial measures should not contain punitive elements, which would only aggravate the country's financing constraints. Instead, these countries should be encouraged to adopt measures aimed at resolving their external difficulties, in the context of growth-oriented adjustment.

The Question of SDR Allocations

30. Ministers pointed out that the proportion of SDRs to non-gold reserves of members is extremely low, and urged that this situation be reversed, so that the objective of making the SDR the principal reserve asset be promoted.

31. Ministers emphasized the potential contribution of the SDR to the stability and more efficient functioning of the existing international monetary system.

32. Ministers strongly emphasized that regular SDR allocations would help countries to improve their reserves and pursue growth-oriented adjustment efforts without imposing import compression. In some cases, such allocations could be helpful in financing some debt reduction operations and could facilitate the payment of part of the quota increase.

33. Ministers urged the countries still opposed to regular allocations of SDRs to reconsider their position in a spirit of international cooperation so that a decision may be reached for an immediate allocation of at least SDR 30 billion.

II. Issues Before the Development Committee

Problems and Issues in Structural Adjustment

34. Ministers emphasized that the principal responsibility for designing and implementing structural adjustment programs remains with the national authorities, which must be satisfied that these programs represent the appropriate course of action for ensuring the sustained growth of their countries and command the political and social support necessary for the adjustment process. Ministers reiterated that the social, political, and economic realities as well as development priorities of the adjusting country must be central elements in the design and implementation of adjustment programs.

35. Ministers underlined the fact that the sustainability of structural adjustment programs requires a favorable international environment, sufficient external finance, and effective measures by the international community to enable the severely indebted countries to grow out of debt.

36. Ministers stressed that contingency measures should be incorporated in the design of adjustment programs to deal with unexpected shortfalls in financial resources or other unexpected changes in the internal or external economic environment during implementation.

37. Ministers emphasized that adjustment must involve the developed, as well as the developing, countries. Adjustment in the industrial countries should focus, inter alia, on a more liberal trading system and on the elimination of subsidies in order to allow, among other things, a vigorous expansion of the export proceeds of developing countries. Ministers called on the industrial countries to make every effort to undertake the measures necessary to implement the required adjustment in their economies. Ministers urged that the reports to be prepared by the Bank and the Fund for the Fall Meeting of the Development Committee include detailed analysis of such adjustment in the industrial countries and its effects on the sustainability of adjustment in the developing countries.

38. Ministers noted with concern that inadequacies of infrastructure and critical skills represent serious constraints on the effectiveness of structural adjustment programs, particularly in the low-income countries. Ministers underlined that these constraints should be taken into account in the design of adjustment, and that measures should be introduced to overcome them. In addition, more attention and effort should be extended to the diversification of the productive base.

39. Ministers welcomed the stepped-up efforts by the World Bank to help governments design programs that mitigate the adverse impact on the poor. Ministers urged that measures to deal with the negative social aspects of adjustment should be an integral part of all adjustment operations. They called on the international community to provide additional support, including concessional financing to programs targeted to the poor.

40. Ministers called on the World Bank and the Fund to avoid excessive conditionality in the design of adjustment programs, and stressed that Bank/Fund collaboration in supporting adjustment programs must avoid any incidence of cross-conditionality. Ministers urged the Bank and the Fund to help governments design programs in a way that avoids excessive reliance on demand-compressing policies and short-term stabilization measures at the expense of the longer-term objective of sustainable growth. Ministers emphasized the need to implement realistic programs over an extended adjustment period.

41. Ministers deplored the fact that several countries pursuing bold adjustment programs have been denied the necessary financial support by the international community because of differences with the World Bank and/or the Fund on the pace and sequencing of measures in growth-oriented adjustment programs. They emphasized the serious economic, social, and political implications of withholding crucial financial support to these countries. Ministers also urged the two Bretton Woods institutions to be more flexible and realistic in helping countries design and implement adjustment programs that take due account of economic, social, and political constraints in order to ensure the sustainability of these programs.

42. Ministers reiterated that investment lending is the World Bank's traditional strong point and remains central to its development objectives. Ministers urged that investment lending to increase agricultural production, strengthen human resource development, improve infrastructure, and enhance institutional capacity should be adequately increased in order to promote development and sustain the adjustment process over the medium and long term.

Development Prospects for the Severely Indebted Countries

43. Ministers noted with deep concern that, seven years after its eruption, the debt crisis continues to cast a dark shadow of uncertainties over the economies and political future of a large number of severely indebted countries, in many of which per capita national incomes and investment as a share of GDP are far lower than they were at the beginning of the decade. Ministers reaffirmed their deep concern about the deterioration of the economic and social conditions, as well as the sharpening of political unrest in the debtor countries, which are hampering their economic growth and making an orderly and equitable solution to the debt problem more difficult.

44. Ministers strongly insisted on a wide redesign of the old debt strategy, which has proven to be incapable of generating meaningful improvements in the situation of the heavily indebted developing countries. Ministers stressed that any strategy for the debt problem should be viewed in a global context and should explicitly cover all the severely indebted countries identified on the basis of objective criteria. The strategy's success will be measured by its capacity to reverse the actual negative net flows to developing countries, to ensure and strengthen growth, and reduce debt.

45. Ministers welcomed the long-overdue official recognition that debt and debt-service reduction has to become one of the central components in the solution of the international debt problem.

46. Ministers considered that the so-called market-based voluntary approach to debt reduction is seriously inhibited by the absence of a supportive fiscal, regulatory, and credit-enhancement framework, not to mention the sharing and negative pledge clauses in contracts.

47. Ministers urged the major industrial countries to review regulatory action on tax and accounting rules aimed at facilitating debt reduction.

48. Ministers insisted on the need for an overall framework for concerted debt and debt-service reduction, in the design of which governments will have to play an active role. In this respect, it is important to stress that sharing the burden and responsibilities among debtors, creditor governments, international organizations, and banks is a key element for the expeditious implementation of such a concerted approach and the achievement of lasting debt solution.

49. Ministers stressed that creditor governments should adopt more flexible mechanisms and better terms in Paris Club reschedulings, and promote new financial flows, including insurance and guarantees from official agencies on adequate terms.

50. Ministers underlined the serious problems faced by lower middle--income IDA-eligible countries, whose heavy indebtedness, mainly to official creditors, is jeopardizing their growth prospects and further depressing the living standards of their people, particularly the poor. Ministers urged the Bank and the Fund to be more responsive to the needs of these countries and to take initiatives for extending debt relief to them.

51. Ministers urged the World Bank and the Fund to provide additional financing and technical assistance that may be needed for debt stock and debt-service reduction operations as well as credit enhancement facilities that may be required by the evolving debt strategy. Ministers recognized the central role that the World Bank and the Fund will have to play to develop new mechanisms aimed at helping those countries that are not able to repay their obligations to these institutions according to the original schedule.

Promoting Economic Recovery and Development in sub-Saharan Africa

Review of Progress on Various Initiatives Intended to Benefit sub-Saharan Africa

52. Ministers emphasized that African governments have been undertaking major policy reforms that are beginning to improve economic performance. Ministers stressed that progress remains fragile and needs to be pursued on a sustained basis.

53. Ministers called on donor countries participating in the special program of assistance to increase the volume of their commitments to work closely with the World Bank and the Fund to intensify implementation, and adopt arrangements to expedite disbursements. Ministers stressed the need to reinforce the SPA and extend it beyond the current program period, because sustained growth in low-income sub-Saharan countries can only be achieved if reform efforts are supported by adequate and sustained donor assistance, including debt relief. Ministers recognized that the Toronto--Berlin consensus is a major step by official creditors toward

helping reduce the burden of the poorest countries, although its impact has so far been very modest in relation to the burden. Ministers urged donors to extend these measures to many additional countries on a predictable multi-year basis, and apply an increased grant element to a much higher proportion of total obligations, while avoiding financing concessional relief from existing aid budgets to ensure additionality.

54. Ministers exhorted the World Bank and other financial institutions to increase their support for the strengthening of institutional capacity in sub-Saharan African countries. Ministers stressed that the adverse effects that befall the poor in the adjustment period should be addressed in the design of adjustment programs and remedial actions undertaken.

55. Ministers stressed the need for the World Bank to increasingly complement adjustment lending with investment lending to strengthen growth. Ministers underscored that, given the importance of sustaining adjustment efforts, dealing with debt, and restoring growth in the poorest countries, special assistance by the international community to low--income, debt-distressed sub-Saharan countries should be reinforced and continued beyond 1990.

56. Ministers underlined the serious problems faced by the middle-income African countries. These countries also need special assistance and should benefit from some concessionary rescheduling of their debt and increased official flows, so as to be able to overcome the present financial and economic crisis. Ministers recommended that the World Bank and donor countries broaden and intensify their efforts to bring into the fold those countries that are not already eligible for assistance under the special program of assistance.

57. Ministers urged the international community to assist African governments in the design and implementation of specific measures to strengthen the fragile economic recovery that is beginning, increase productive investment, rehabilitate and strengthen infrastructure, and carry on special initiatives to tackle the region's long-term development problems, including the need for technological progress, efficient manufacturing, private investment, and regional development and integration.

Reports

a) Current International Trade Developments, with Particular Reference to the Uruguay Round

58. Ministers noted with regret that the industrial countries have been moving toward managed trade, bilateralism, and unilateralism, which represent a serious threat to the multilateral trading system and are particularly damaging to the exports of developing countries.

59. Ministers regretted that commitments embodied in the Punta del Este Declaration, and further endorsed in Montreal, on Standstill and Rollback have not been observed and that their violations continue to multiply. Ministers reiterated their concern over the growth of protectionism, which imposes unacceptable harm not only on developing countries, but also on the world economy as a whole, including the industrial countries. Ministers strongly urged all participants in the Uruguay Round to arrest protectionism and restore order and discipline to the

world trading environment, as both are essential to the general interest of the international community. Ministers noted that tariff escalation in industrial countries is cutting off access of finished and semi-finished products from developing nations.

60. Ministers regretted that this continued increase in protectionist measures in the developed countries is in sharp contrast to the liberalization efforts undertaken by many developing countries, mainly under World Bank and Fund programs. They urged that these liberalizing efforts by developing countries be given due credit by developed countries in the application of the principles of relative reciprocity and differentiated treatment for developing countries within the framework of the Uruguay Round.

61. Ministers recommended the application of relative reciprocity over time for the commitments resulting from the Uruguay Round, in line with individual development, financial and trade needs of the developing countries, and in accordance with the principle of special and more favorable treatment for these countries, as recognized in the GATT framework of rights and obligations.

62. Ministers stressed the importance of the link between trade and finance and the need to improve the trading environment so as to permit developing countries to meet their financial obligations, and create mechanisms to avoid the imposition of undue and unfair trade restrictions on developing countries. Ministers underlined in this regard that the widespread movement toward trade-oriented policy reform in developing countries cannot succeed without parallel reforms in the industrial countries to improve access to their markets and a supportive combination of financial and technological inflows and export expansion, which are fundamental to solving the debt crisis. Ministers also underlined the fact that low-income and heavily indebted countries expect fair and equitable treatment to expand and diversify trade to escape their economic crises.

63. Ministers welcomed the trade policy review mechanism under which the trade policies of major trading nations would be reviewed every two years in the GATT and those of smaller countries every four or six years.

64. Ministers stressed the need for substantial progress in the key areas of agriculture, textiles and clothing, safeguards, and agricultural and preshipment inspection, so that the Uruguay Round can move on to its remaining agenda. Ministers reaffirmed their strong opposition to any delinking of agriculture from the other negotiating issues and the unacceptability of any agreement that would leave out that sector. Ministers recommended that at the Geneva meeting in April, the GATT Director-General pursue his intermediary role in the resolution of the remaining issues on which agreement could not be reached at the Montreal mid-term review.

65. Ministers urged the developed countries to agree to the elimination of discrimination meted out to textiles and clothing by implementing a freeze on further restrictions under MFA, fixing a time frame during the Uruguay Round for the integration of this sector into GATT and the phasing out of MFA, with a clear indication that its phase out will start at the end of the present MFA on July 31, 1991.

66. Ministers emphasized that selective import restrictions or safeguards by developed countries against developing countries are discriminatory in their impact and subject the latter to more adverse unilateral barriers. Consequently, a comprehensive agreement on safeguards should be based on the principle of non-discrimination and should contain such elements as temporariness and be progressively phased out.

b) Trends in the Transfer of Real Resources

67. Ministers deplored the further decline in total net disbursements of external finance, both official and commercial, to developing countries, and urged the international community to take urgent steps to reverse the trend.

68. Ministers expressed serious concern about the fall in official development finance and the fact that the net disbursement of official development assistance fell in 1987 and is expected to register only a modest rise in 1988, at a time when developing countries were struggling to deal with problems of poverty alleviation and the adequacy of resources for adjustment reforms and growth. Ministers stressed the need for a substantial increase in the transfer of concessional resources to these countries.

69. Ministers deplored the fact that the increase in ODA has not kept pace with growth in developed countries. Ministers called on the developed countries to take urgent steps to achieve the international target of 0.7 percent of GNP.

70. Ministers stressed the need to expeditiously and effectively implement measures to obtain a substantial debt and debt-service reduction in the developing countries.

c) Status of Negotiations for the Ninth Replenishment of IDA

71. Ministers reiterated the importance of the role played by IDA in promoting economic growth, increasing productivity, and alleviating poverty in low-income countries. It is, therefore, with great interest that developing countries are following the IDA-9 replenishment negotiations. IDA donor countries must take into account the gains that have been made as a result of IDA-assisted operations, which should obviously be sustained and expanded. Ministers underlined the need for an early finalization of the 9th replenishment of IDA to enable recipient countries to gain and maintain their developmental momentum and make progress in poverty alleviation.

72. Ministers urged donor countries to make special efforts to provide substantial contributions to the IDA-9 replenishment, which should be significantly higher in real terms than IDA-8, to enable the Association to respond effectively to the increased needs of IDA recipients, including those of the small, land-locked and island countries, as well as other IDA-eligible countries, particularly the heavily indebted lower middle-income countries facing serious financial difficulties.

III. Reform of the International Monetary and Financial System

73. Ministers reiterated the call for the creation of a representative Committee of Ministers from

developing and industrial countries to consider the reform and improvement of the international monetary system. 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.

74. 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.

IV. Special Plan of Economic Cooperation for Central America

75. Ministers called attention to the critical economic and social situation in Central America. Ministers strongly supported significant and exceptional efforts to provide financial support for the 'Special Plan of Economic Cooperation for Central America, approved by the General Assembly of the United Nations in its Resolution No. 42/231 of May 12, 1988, a plea that was reiterated by the General Assembly in paragraphs 5 and 6 of Resolution A/C.2/43/L.46 of November 14, 1988.