INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

FORTY-FOURTH MEETING OF MINISTERS

COMMUNIQUÉ

April 28, 1991

Ministers of the Group of Twenty-Four on International Monetary Affairs held their Forty-Fourth Meeting in Washington, D.C. on April 28, 1991. Mr. Rudolf Hommes, Minister of Finance and Public Credit of Colombia, was in the Chair, with Mr. Alhaji Abubakar Alhaji, Minister of Finance and Economic Development, Nigeria, and Mr. Khaled Mahayni, Minister of Finance, Syrian Arab Republic, as Vice-Chairmen. The meeting was attended by Mr. Michel Camdessus, Managing Director, International Monetary Fund, Mr. Barber B. Conable, President, World Bank, Mr. Yves L. Fortin, Executive Secretary, Development Committee, Mr. K. Dadzie, Secretary General, UNCTAD, Mr. Rafeeuddin Ahmed, Under-Secretary General, United Nations, Mr. Y. Seyyid Abdulai, Director-General, OPEC Fund, Mr. Stefan Balabanoff, Head, Economics Section, OPEC, Mr. Carlos Pérez del Castillo, Permanent Secretary, SELA, Mr. Olivier Castro, Executive Secretary, CAMC, Mr. Mohamed Berrada, Morocco, Mr. Abdulaziz Al-Orayer, Saudi Arabia; Mr. Zengyin Tong, Vice-Governor, People's Republic of China, attended as invitee.

The Meeting of the Ministers was preceded on April 26, 1991 by the Fifty-Seventh Meeting of the Deputies of the Group of Twenty-Four with Mr. Hernán Mejia, of Colombia, as Chairman, and Mr. Mallam Usman, of Nigeria, and Mr. Mohamed Wafik Hosny, representing the Syrian Arab Republic, as Vice-Chairmen.

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ISSUES BEFORE THE INTERIM COMMITTEE

Strengthening the International Economic Environment

1. Ministers noted with concern the deceleration of growth in the world economy in 1991 for the third consecutive year, and the worsening of the already unfavorable external environment facing the developing countries, which has made it more difficult and costly for them to implement far-reaching macroeconomic and structural reforms. In this connection, Ministers noted in particular the recurrent substantial current-account deficits of the major industrial countries as a group.

2. Ministers observed the generally optimistic growth projections for developing countries in

past years, and underscored that the rebound in growth projected for developing countries in 1992 and beyond could also be overly optimistic and may not materialize because of the prospect of deterioration in the international economic environment, particularly the shortage of global savings and the increased competition for financial resources, especially by industrial countries. This might result in an increase in real interest rates and a decrease in investment, making more difficult the servicing of external debt and further impeding the balanced growth of the world economy.

3. Ministers expressed deep concern about the continued adverse impact of the external environment on the adjustment efforts of developing countries, and called on the industrial countries to adjust their economies and enhance their policy coordination process with a view to ensuring global sustainable growth over the longer term, and open their markets to developing countries' exports. That goal requires an appropriate balance between monetary and fiscal policies and sound implementation of structural reforms so as to promote stronger world output growth and trade, reduce inflationary pressures, and increase global savings.

4. Ministers urged the international financial institutions and the industrial countries to make substantially more financial resources available in a timely manner, and on favorable terms and conditions, to facilitate and promote successful implementation of structural and macroeconomic reforms in developing countries.

5. Ministers noted with concern that the annual costs in forgone income to the developing countries of current trade restrictions in the industrial countries amount to about twice the annual interest payments on their public external debt and are about twice the annual volume of the official development assistance they received from the industrial countries. Therefore, they urged industrial countries to facilitate a prompt and favorable outcome of the Uruguay Round, given its major impact on the world trade system on which the improvement of the global economy in general, the sustainability of adjustment efforts, and the lasting solution to the debt problem of developing countries critically depend.

6. Ministers noted the increasing trend toward trade liberalization arrangements in the context of regional integration, but stressed that these arrangements should not be taken as a substitute for global liberalization.

7. Ministers called on the Fund to enhance its role in overseeing the functioning of the international monetary system by increasing the effectiveness of its surveillance of macroeconomic policies affecting the exchange rates and real interest rates of the major industrial countries, and to ensure that the cost of adjustment is equitably shared among developed and developing countries.

8. Ministers called on the Fund to increase its support for the adjustment efforts of developing countries confronting protracted balance-of-payments and structural difficulties through adequate facilities and resources. In this connection, it would be appropriate to expand and convert the ESAF into a permanent facility. In the meantime, efforts should be intensified to enhance the pace of ESAF utilization.

9. Ministers urged that early approval of the quota increase is necessary due to the growing number of member countries using Fund resources.

10. Ministers emphasized the need for a new unconditional and substantial allocation of SDRs, urged the industrial countries that have not yet supported a new allocation of SDRs to reconsider their position, and called on the Board of Directors of the International Monetary Fund to expeditiously address this subject, and to explore appropriate ways to make available the larger part of the new allocation to developing countries.

International and Regional Implications of the Crisis in the Middle East and its Aftermath

11. Ministers welcomed the efforts already made by multilateral organizations to support the most immediately impacted countries and those most severely affected by the recent Middle East crisis.

12. Ministers also welcomed the creation of the Gulf Crisis Financial Coordination Group (GCFCG), and called for enhanced collaboration between regional and international organizations and the GCFCG to support the economic recovery and reconstruction efforts of the countries in the region.

13. Ministers urged the relevant international organizations, international financial institutions, and industrial countries --mainly those benefiting from low oil prices -- to provide significant and timely concessional financial resources and technical assistance to the countries in the Middle East region and other developing countries affected by the crisis to make possible the transfer of the concessional resources required to help the countries affected by the war to cope with their immediate and long-term economic problems, including refugees, rehabilitation and reconstruction, and economic recovery.

Adjustment and Growth Prospects in Developing Countries and Eastern Europe

14. Ministers expressed concern that since the late 1970's industrial countries as a group have shifted from being net suppliers to being net users of global savings. Ministers urged these countries to implement and coordinate their policies so as to reverse the declining trend in their saving ratios, in order to achieve lower real interest rates and higher levels of economic activity in all countries.

15. Ministers pointed out with great concern that for the net debtor developing countries as a group, the ratio of external savings to domestic investment was almost halved from over 17 percent in the period 1975-82 to 9 percent in 1983-90.

16. Ministers called attention to the successful efforts being made by a number of countries, including some with heavy debt burdens in terms of conventional ratios, to weather external shocks while maintaining full debt--service payments and avoiding rescheduling. Ministers urged industrial countries and multilateral organizations to provide appropriate support for these efforts so as to facilitate retention of access to international capital markets and the provision of spontaneous financial flows to these countries. Ministers noted that it is essential that prompt,

adequate, and flexible official assistance be made available to support such efforts.

17. Ministers noted with concern that while a number of heavily indebted countries are undertaking far-reaching economic reforms, they continue to experience a lack of foreign financing. For several of these countries, debt-service obligations continue to represent a significant proportion of tax revenues and foreign exchange earnings, with detrimental effects on their growth prospects, and hence on their ability to grow out of debt. These issues are compounded by continued caution on the part of commercial bank lenders and the limited scope for expansion of official lending.

18. Ministers noted with concern that even though a limited number of developing countries have benefited from new voluntary foreign financing, particularly through international bond issues, indebted countries are having to cope with increasingly restrictive capital-asset ratio regulatory requirements -- including the 100 percent risk weighting under the Basle Capital Adequacy Standards -- under which "flight to quality" considerations and competing demands for funds could further restrict the countries' access to bank resources.

19. Ministers expressed serious concern about the weak and uncertain economic prospects for sub-Saharan African countries, which continue to bear the heaviest debt burden among other debt-distressed countries. Ministers re-emphasized the importance of sustaining their adjustment efforts and restoring their external viability by providing them with an adequate flow of financial resources on concessional terms and substantial debt and debt-service reduction, including, in particular, meaningful debt cancellation.

20. Ministers welcomed the initiative taken by the Paris Club in relation to Poland, as well as additional bilateral efforts which have followed thereon, and called on the Paris Club members to implement similar initiatives for heavily indebted developing countries. In this context, Ministers welcomed the ongoing discussions within the Paris Club on initiatives to improve upon the Toronto Terms and expressed support for the initiatives taken by the Netherlands and Trinidad and Tobago. Similar terms should be extended to other indebted developing countries facing serious problems of international concern.

21. Ministers welcomed the flexibility introduced recently by some of the multilateral institutions in the treatment of arrears, but expressed concern regarding those highly indebted countries in arrears to the multilateral institutions that do not qualify as low-income countries and are, accordingly, left without any possibility for the treatment of their arrears or access to other financial resources. Ministers called on the Fund, the World Bank, and regional development banks to introduce policies that can ease the burden of these debtor countries in meeting their obligations.

22. Ministers noted that the cooperative approach to solving the problem of overdue financial obligations needs rapid support by the major creditor countries.

23. Ministers insisted on the need to preserve at all costs the multilateral and cooperative character of the international financial institutions, as well as their respective mandates and responsibilities under their Articles of Agreement, and consensus-seeking efforts within the

respective Executive Boards. Ministers stressed that the programs, loans, and credits extended by these institutions must be considered exclusively on their own technical merits. Ministers called on developed member countries to avoid the use of these institutions to exert pressure on developing member countries in economic negotiations, such as the debt negotiations with commercial banks.

24. Ministers expressed concern about the weakening external payments positions of the Central and Eastern European countries. They welcomed the recent stabilization programs undertaken by some countries in the region, along with the positive expectations that they bring with respect to reducing the annual rate of inflation in Central and Eastern Europe. However, they stressed that the expected surge in the demand for financial resources associated with the economic restructuring of Central and Eastern Europe, coupled with the continuing need for external financing by the developing countries, underscores the importance of sound macroeconomic and structural policies that will enhance global savings and mitigate the upward pressure on interest rates. Greater responsibility in this respect rests with those major industrial countries in deficit.

25. Ministers urged the Fund and the World Bank to strengthen their support for heavily indebted developing countries, as well as other developing countries with serious debt problems, in designing growth-oriented adjustment programs and in mobilizing technical and financial resources, but expressed concern that conditionality continues to be excessive, while efforts to mobilize financial resources are still inadequate and should be intensified. Ministers stressed the need for the Fund and the World Bank to play a leading role in the process of closing the external financing gap of the heavily indebted developing countries, as well as other developing countries with serious debt problems, so as to achieve an equitable burden-sharing among all the parties concerned.

26. Ministers called on the Fund and the Bank, in applying the debt guidelines, to take into account the need for fungibility in their credit facilities supporting debt and debt-service reduction.

ISSUES BEFORE THE DEVELOPMENT COMMITTEE

Issues in the Transfer of Resources to Developing Countries

(a) Financial implications of development policies aimed at poverty reduction

27. Ministers emphasized that in many of the developing countries poverty remains a very challenging problem, the solution of which should be given high priority.

28. Ministers stressed that the alleviation of poverty is within reach from the point of view of the estimated financial requirements associated with the effort. Nevertheless, to reach this goal, substantial additional external assistance will be required, since few developing countries, especially low-income countries, are likely to have sufficient resources in the foreseeable future to reduce poverty on their own.

29. Ministers recognized that a truly effective poverty alleviation program has to be set within a

coherent macroeconomic policy framework for economic growth and price stability, both of which are necessary, although not sufficient, conditions for effective poverty alleviation. Ministers stressed that any strategy aimed at reducing poverty should focus on broadening economic growth and providing adequate social services, mainly in the areas of health, education, and the establishment of comprehensive safety nets to alleviate the social cost of adjustment and protect the poor.

30. Ministers drew attention to the growing demand for resources to support enhanced poverty alleviation programs, structural adjustment, and the reduction of the debt burden of the developing countries. Ministers called for more determined efforts by the OECD countries to progress expeditiously toward reaching, within a defined timeframe, the internationally agreed ODA target of 0.7 percent of their GNP.

31. Ministers welcomed the World Bank's reaffirmation of its commitment to make poverty reduction a priority objective in its lending operations, and emphasized that if this commitment is to produce lasting results, it must be sustained over a long period of time. Ministers stressed that the Bank's efforts to reduce poverty can only be complementary to individual country programs for poverty alleviation. To be successful, the programs must be designed, managed, and supervised by each government according to its political, institutional, social, and economic circumstances. In this context, a country's efforts to reduce poverty should not be an element of additional conditionality.

32. Ministers noted that in the systematic and complementary role that the Bank is playing, it should be recognized that understanding poverty in a country-specific context is a demanding exercise. They stressed the need for enhanced cooperation with other UN agencies, bilateral and multilateral donors, and relevant nongovernmental organizations, so as to benefit from their wide experience in the design and implementation of poverty programs.

<u>(b) The role of foreign direct investment in development</u>

33. Ministers recognized that foreign direct investment (FDl) has the potential to increase resource flows, and that the challenge is to realize this potential by expanding the coverage and increasing the flow of direct foreign investment beyond a few well established recipients.

34. Ministers emphasized that although the macroeconomic adjustment programs being pursued in many developing countries have enhanced the incentives and opportunities for capital reflows and FDI, there is an excessive lag between improved economic performance in developing countries and actual FDI decisions. Ministers urged multilateral financial institutions and industrial countries to enhance their efforts to promote FDI.

35. Ministers urged industrial countries to maintain appropriate demand-management policies and adopt structural reforms in order to contain inflationary pressures and promote savings and investment, thereby creating favorable conditions for FDI flows. Those policies should aim to achieve fiscal and monetary balances to prevent high real interest rates that could create an imbalance between investors' preferences for debt instruments and FDI. Ministers further urged industrial countries to implement appropriate changes in their tax and regulatory policies that

encourage FDI to developing countries.

36. Ministers stressed the importance of establishing adequate access to commercial sources of financing to developing countries to further enhance the benefits of FDI flows to them. Access to commercial financing should not be impeded by source countries' policies.

37. Ministers emphasized that current efforts to standardize banking regulations and practices among industrial countries should not bias banks in these countries against lending to developing countries by requiring additional conditions which restrict resource flows to these countries and deter FDI flows to them.

38. Ministers called on the Fund and the World Bank Group to give special attention to the problem of countries that have little prospect of substantially increased FDI flows because of their structural disadvantages, despite their improved economic policies.

The Impact of Industrial Countries' Trade, Agricultural and Industrial Policies on Developing Countries

39. Ministers drew attention to the significant findings of the World Bank and the Fund which highlight the adverse effects of the industrial countries' trade, agricultural, and industrial policies on the efforts of developing countries to liberaliza their economies, improve living standards, and service their external debt. Ministers stressed that such policies have adverse effects on the industrial countries themselves. Ministers noted that these findings confirm, extend, and reinforce the major conclusions of earlier reports to the Development Committee on these issues, and urged that a periodic review be conducted on the impact of industrial countries' protectionist policies on the developing countries at each meeting of the Development Committee.

40. Ministers noted with concern that an increasing number of developing countries have undertaken far-reaching macroeconomic adjustment programs and structural reforms, including the liberalization of trade, but these changes are not being complemented by commensurate actions to roll back protectionism in the industrial countries.

41. Ministers expressed concern regarding the adverse consequences for the efficient allocation of resources and the expansion of world trade which arise from existing protectionism, particularly the intensification of non--tariff barriers in the industrial countries.

42. Ministers urged industrial countries to implement appropriate trade policies for sectors of vital interest to developing countries (including agriculture, textiles and clothing, and petrochemicals) to reduce existing distortions affecting global trade. In this regard, Ministers stressed the need for an early and satisfactory agreement on trade liberalization, and called on the industrial countries to agree on policies needed for the successful conclusion of the Uruguay Round.

43. Ministers urged the industrial countries to resolve their differences in relation to the agricultural sector in a way conducive to the prompt establishment of a truly working multilateral trading system. They called on the industrial countries to eliminate distortions and remove the

structural rigidities embedded in this sector of their economies, by reducing or eliminating agricultural support and protection, to allow more open international trade on the basis of comparative advantage. Ministers recognized that this could have a positive immediate and/or potential impact on the promotion of agricultural production and exports in many developing countries. They underlined the need for specific off-setting measures for the net food importing developing countries, including food and financial aid as well as technical assistance to improve food production and productivity in these countries.

44. Ministers emphasized that while regional arrangements may lead to new trading opportunities, they should be complementary to the GATT agreements, and not an alternative to a more multilateral and freer global trading system.

PROGRESS REPORTS

The Middle East Crisis and the Response by the Bank and the Fund

In addition to their views expressed in the section on the issues before the Interim Committee relating to international and regional implications of the crisis in the Middle East and its aftermath:

45. Ministers welcomed the support provided by the Fund and the Bank to the countries most immediately impacted and severely affected by the Middle East crisis. They stressed the vital role of the Fund and the Bank in helping the Middle East countries in reconstruction, economic recovery, and implementation of macroeconomic policies and structural reforms; and called on both institutions to enhance their catalytic role and to promptly provide substantial financial and technical assistance for the most immediately impacted countries, as well as other affected countries in the region.

46. Ministers emphasized the urgency of mobilizing additional resources to the developing countries most severely affected by the consequences of the Middle East crisis, particularly those impacted by refugee problems.

47. Ministers noted that the price of oil has been reduced far below the levels envisaged before the conflict in the Middle East broke out. They called on the oil importing industrial countries benefiting from the low price to make additional contributions to finance the economic recovery and reconstruction of all developing countries that are affected by the Middle East crisis and the consequences of the war, and to adequately support the macroeconomic and structural reforms undertaken by these countries to enhance their prospects for economic and social progress.

48. Ministers called on the relevant multilateral and bilateral institutions, both official and nongovernmental, to cooperate with the authorities in the concerned countries for the expeditious mobilization of adequate humanitarian and economic assistance to ensure the timely alleviation of the human suffering and hardship, particularly the refugee problem, brought about by the Middle East crisis.

Implementation of the Debt Strategy and Its Impact on the Development Prospects of All

Severely Indebted Countries

In addition to their views expressed in the section on the issues before the Interim Committee relating to adjustment and growth prospects in developing countries and in Eastern Europe:

49. Ministers noted that, disappointingly, after two years of implementing the enhanced debt strategy and debt-service reduction programs, only a small number of countries have been able to negotiate restructuring packages, and that, for the developing countries as a group, the cash relief resulting from lower net interest payments and the reduction in the debt stock has been rather modest.

50. Ministers emphasized the importance of complementary initiatives to support economic reforms and debt restructuring operations, such as the Enterprise for the Americas Initiative proposed by the United States government for the Latin American and Caribbean countries. They called on the other industrial countries to become participants in the implementation of this initiative, without prejudice to other initiatives of their own.

51. Ministers emphasized the need for an adequate provision of downside contingencies in relation to debt arrangements for developing countries.

52. Ministers called on the Bank and the Fund to provide technical assistance, as requested, that would give borrowers risk protection through hedging instruments, appropriate selection of currencies borrowed, and risk management.

International Finance Corporation's Capital Adequacy

53. Ministers drew attention to the difficulties developing countries are encountering in obtaining financing from commercial banks and other sources, and, hence, the importance of the role of the International Finance Corporation in mobilizing savings and know-how for private sectors in these countries. Ministers stressed, therefore, that the IFC capital increase comes at a critical time in the developing countries, when a large number of them are adopting policies designed to strengthen the private sector.

54. Ministers expressed strong support for a US$1.3 billion capital increase of the International Finance Corporation, to enable it to continue contributing effectively to the promotion of private investment, including foreign direct investment, in the developing countries, both with its own resources and through its catalytic role in the mobilization of capital from other sources. Ministers urged the Executive Board to expedite its decision on the capital increase for approval before July 1, 1991.

Establishment of a Program to Address Global Environmental Problems

55. Ministers reiterated that, while industrial countries are responsible for the bulk of global environmental degradation, management of the global environment is essential to the economic well-being of both the industrial and developing countries. They welcomed the final agreement on setting up the Global Environment Facility, which will be implemented through the

collaboration between the World Bank, the United Nations Development Program, and the United Nations Environment Program.

56. Ministers welcomed the commitments made by some industrial and developing countries to contribute to the Global Environment Facility, which, coupled with the transfer of income from the World Bank, will meet the proposed amount of SDR 1 billion the GEF is to start with. Ministers called on other industrial and developing countries to pledge contributions to the GEF as soon as possible.

Representation In The Fund And The Bank

57. Ministers emphasized the need to preserve the true multilateral character of the Bretton Woods institutions, and reiterated that the present geographical representation of developing country regions on the Executive Boards of the Fund and the Bank should be, as a minimum, maintained, and preferably increased.

58. Ministers noted with deep regret and sorrow the death of Sidney Dell, G-24 Project Director, and warmly acknowledged his major contributions to the work of the Group and the well-being of the developing countries.