INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

FORTY-FIFTH MEETING OF MINISTERS

COMMUNIQUÉ

October 12, 1991

Ministers of the Group of Twenty-Four on International Monetary Affairs held their Forty-Fifth Meeting in Bangkok, Thailand on October 12, 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. Lewis T. Preston, President, World Bank, Mr. Turan Kivanc, Advisor, Development Committee, Mr. K. Dadzie, Secretary General, UNCTAD, Mr. G. K. Helleiner, G-24 Research Coordinator, Mr. Cristian Ossa, Director, General Analysis and Policies Division, United Nations, Mr. Y. Seyyid Abdulai, Director General, OPEC Fund, Mr. I. Osayimwese, OPEC, Mr. A. N. Hersi, Islamic Development Bank, Mr. Jose Rivera, Alternate Executive Director, SELA, Mr. Olivier Castro, Executive Secretary, CAMC, Mr. Mohamed Berrada, Morocco, Mr. Tarik Al-Tukmachi, Iraq, and Mr. Abdulaziz Al-Orayer, Saudi Arabia; Mr. Chen Yuan, Deputy Governor, People's Republic of China, attended as invitee.

The Meeting of the Ministers was preceded on October 11, 1991 by the Fifty-Eighth Meeting of the Deputies of the Group of Twenty-Four with Mr. Hernán Mejía of Colombia, as Chairman, and Mr. Mallaz Usman of Nigeria, and Mr. Mohamed Wafik Hosny, representing the Syrian Arab Republic, as Vice Chairmen.

ISSUES BEFORE THE INTERIM COMMITTEE

I. World Economic Outlook

1. Ministers expressed deep concern about the poor prospects for the world economy and the continued adverse impact of the external environment on the macroeconomic and structural adjustment efforts of developing countries, characterized by the slowdown in real output growth in industrial countries and in world trade volume as well as the slow growth of developing countries' exports. They called on the industrial countries to adjust their economies and enhance their policy coordination process with a view to ensuring sustainable global growth over the longer term, and to open their markets to developing countries' exports. While this requires a balance between fiscal and monetary policies, the goal should be for industrial countries to implement strong fiscal discipline and remove structural obstacles in the trade and labor markets, to increase global savings, and to improve the use of resources for promoting strong output, growth and trade.

2. Ministers expressed deep concern that the slowdown in the expansion of the world economy, together with the increasing production and stock of agricultural commodities, is contributing to a further deterioration of the terms of trade -- to the lowest level since 1980 -- of fuel and non-fuel commodity exporting developing countries. They also noted with concern that the imposition by industrial countries of so-called environmental taxes on developing countries' products would contribute further to this deterioration.

3. Ministers reaffirmed the need for the Fund to enhance its role in overseeing the functioning of the international monetary system by increasing the effectiveness of its surveillance over macroeconomic policies of the major industrial countries in view of their continued growing fiscal deficits and protectionist policies, which are imposing pressures on global savings, and on real interest rates and exchange rates, seriously affecting the implementation of adjustment programs in developing countries. Ministers urged the Fund to prepare a report for presentation to the next meeting of the Group of Twenty-Four in 1992 to appraise the surveillance of the macroeconomic policies of the major industrial countries.

4. Ministers stressed that early approval of the quota increase under the Ninth General Review is necessary in light of the growing membership and the projected use of Fund resources. Ministers emphasized that, given the still restricted access of most developing countries to financial markets, and given their increasing demand for official financial flows, the present enlarged access policy should at least be maintained.

5. Ministers emphasized the need for a new and substantial allocation of SDRs to supplement global reserves, and they urged the industrial countries that are still opposed to a resumption of an allocation of SDRs to reconsider their position. They called on the Fund's Executive Board, in addressing this subject, to explore appropriate ways by which to make available the larger part of the new allocation to developing countries.

II. Management of the Debt Situation

6. 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 official creditors to provide appropriate support for these efforts so as to facilitate the retention of access to international capital markets and the provision of spontaneous financial flows to these countries.

7. Ministers expressed concern that the legacy of the debt crisis continues to undermine the success of developing countries' adjustment policies and their ability to achieve sustainable growth and attract more flows of foreign capital for investment and external financing. In this connection, Ministers called on the Bretton Woods institutions to continue supporting, with even greater resources and in a timely fashion, indebted developing countries' negotiations aimed at achieving debt relief and restoring their

external creditworthiness and market access.

8. Ministers recognized that the decline in the debt-to-GDP ratio and debt-service ratio has been the most visible result of the strengthened debt strategy, especially for the 15 heavily indebted countries. In spite of this, Ministers noted with great concern that of the six countries that have successfully completed debt renegotiations, only three have gradually established voluntary access to capital markets. Ministers called the attention of multilateral institutions to the need for them to continue to support these countries in their efforts to secure and retain access to capital markets.

9. Ministers stressed the need for definitive and more rapid resolution of commercial-bank debt negotiations in developing countries. They emphasized that any "value recovery" or "recapture" clauses in these negotiations should operate only in a prospective and symmetrical way. Ministers reiterated their request to the multilateral financial institutions to provide resources for "enhancements" in a sufficient, timely, and flexible manner. Ministers noted that the "front-loading" and "fungibility" of these resources have proven essential to the success of the strategy.

10. Ministers noted with concern that only five out of 50 countries that received Paris Club rescheduling in the 1980s had clearly exited from the rescheduling process by the end of the decade. They emphasized the importance of tailoring the restructuring and repayment schedules of the agreements reached in the context of the Paris Club or with commercial banks to the estimated debt-service capacities of debtor countries, and they called on the creditors to move decisively to provide definitive resolutions of debt-service difficulties in the context of comprehensive adjustment programs.

11. Ministers noted with concern that the prospects for external viability remained very weak for many of the severely indebted low-income countries, despite the application of the Toronto terms. They called on the creditor countries to adopt additional debt relief measures in line with the Trinidad and Tobago terms or those suggested by the Netherlands and Belgium. Ministers urged the creditor countries in the Paris Club to complete their negotiations on the implementation of the proposed Trinidad and Tobago terms as quickly as possible.

12. Ministers also urged that due attention be given to severely indebted middle-income countries. They observed that the case-by-case approach suggested in the G-7 economic summit communiqué is relevant in this regard.

13. Ministers welcomed the treatment by the Paris Club of the debt of Poland and Egypt, and they invited the Paris Club to extend this treatment to lower middle-income countries.

14. Ministers expressed concern that the restoration of new flows of financing to countries that have restructured their official debts is subject to significant delays. This timing element becomes particularly relevant for countries that have initiated comprehensive privatization programs and are in need of medium- and long-term

financing to acquire new technology and capital goods to consolidate the efficiency gains resulting from private-sector investment.

15. Ministers stressed that decisions on extending program loans and other credits by multilateral institutions, as well as the provision of commercial credits and new money by international banks, must be based exclusively on the technical merits of such loans and credits.

16. Ministers called on the Bank and the Fund to strengthen their capacity to provide and finance technical assistance for hedging instruments, including the appropriate selection of currencies borrowed, and risk management.

17. Ministers welcomed complementary initiatives to support economic reforms and debt restructuring operations, such as the Enterprise for the Americas Initiative proposed by the U.S. Government for Latin American and Caribbean countries. They called for an expansion of such schemes to benefit similarly situated countries. They also urged other industrial countries to become participants in the implementation of such initiatives.

18. In light of the memorandum on the Cooke ratio and other bank practices prepared by the Banque d'Algerie at the request of the G-9 developing countries. Ministers noted with deep concern that the unduly restrictive regulatory, supervisory, and accounting practices have led to reluctance by the market to undertake sovereign-risk lending. Ministers called on the industrial countries and the BIS to improve those practices and regulations in order not to bias banks in industrial countries against lending to developing countries by requiring additional conditions that restrict voluntary credit and investment flows to developing countries.

III. Global Savings and Productive Use of Scarce Resources

19. Ministers expressed concern that since the late 1970s industrial countries as a group have shifted from being net suppliers to being net users of global savings. They urged these countries to reverse the declining trend in their saving ratios by correcting their fiscal imbalances and implementing appropriate fiscal and monetary policies in order to achieve lower real interest rates and higher levels of economic activity in all countries.

20. Ministers called on the industrial countries to correct their external imbalances by, among other means, a transfer of resources to developing countries, thereby reintegrating the developing world into the international system and enhancing noninflationary global growth.

21. Ministers considered that in the post-Cold War world it is necessary to capitalize as soon as possible on the dividends of the favorable climate for peace and economic development. This new climate favors the channeling of additional resources for

economic development. Ministers cautioned against the involvement of the Fund and the Bank in issues beyond their strict economic and financial mandate.

IV. The Uruguay Round and Prospects for Trade Liberalization

22. Ministers noted with deep concern that, although an increasing number of developing countries have undertaken far-reaching macroeconomic adjustment programs and structural reforms, including trade liberalization, the prospects for a more favorable external environment have worsened further as a consequence of the failure to conclude the Uruguay Round of multilateral trade negotiations. In this connection, Ministers expressed concern that the use of non-tariff barriers by industrial countries has grown significantly, voluntary export restraints and quotas have proliferated, price supports and subsidies have increased, and 20 of the 24 OECD economies are, on balance, more protectionist now than they were 10 years ago. They therefore urged industrial countries to make a concerted effort and to show the political flexibility needed for the successful conclusion of the Uruguay Round.

23. Ministers noted with concern the adverse consequences for the efficient allocation of resources and the expansion of world trade that arise from existing protectionism, and stressed that delay in reaching a successful conclusion of the Uruguay Round deprives the world of large welfare and efficiency gains. Keeping important areas -- such as agriculture -- largely or completely outside the realm of multilateral rules produces an inefficient use of fiscal resources, which are used to subsidize the agricultural sector to the extent of more than $300 billion, the trading environment is substantially weakened, and Fund policy advice is made more difficult.

24. Ministers urged the industrial countries to establish a genuinely multilateral trading system with respect to agricultural commodities. Ministers 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, in order to allow for more open international trade on the basis of comparative and competitive advantage.

25. Ministers called on the Fund and the Bank to continue to encourage their members to expand trade on a multilateral basis and to ensure that regional and bilateral trade initiatives are compatible with a more open multilateral trading system. In this respect, Ministers also called on the Fund to strengthen the coverage of trade issues in all Article IV consultations with member countries, especially major industrial countries.

V. Recent Developments in Eastern Europe and in the U.S.S.R.

26. Ministers noted the significant changes taking place in the Central and Eastern European countries and in the USSR, and they pointed out that the prompt recovery of their output growth and integration into the multilateral trade and financial system will have significant beneficial effects for the entire international community.

27. Ministers called on the Fund and the World Bank to provide these countries with technical assistance and make available to member countries adequate financial resources to support their efforts in transforming their economies, without prejudicing resource flows to the developing countries. They also called on the industrial countries to provide financial assistance in support of the important new policies being implemented in the Central and Eastern European countries and in the USSR. They emphasized that this transfer of resources should not be at the cost of assistance to developing countries.

ISSUES BEFORE THE DEVELOPMENT COMMITTEE

VI. The Development Priorities of the I990s and Their Implications for the World Bank Group

28. Ministers welcomed the Bank report entitled Development Priorities for the 1990s and Implications for the World Bank Group and the broad consensus among members of the institution on the priorities of reducing poverty and promoting sustainable economic growth. Actions to protect the environment are essential to both objectives. The objectives call for more determined cooperation between industrial and developing countries, both through the multilateral institutions and bilaterally. It is now more urgent than ever that the Bank's motto "Partners in Development" be advanced in practical and concrete actions that cement this partnership for the mutual benefit of both the developing and industrial countries. In this respect, the new Bank publication, Global Economic Prospects and the Developing Countries, will play a useful role on a continuing basis in identifying and analyzing the economic linkages between developing and industrial countries.

29. Ministers stressed that the priority development goals for the I990s cannot be attained without the mobilization of substantial external resources to support the adjustment efforts of developing countries. In this connection, Ministers expressed deep concern that the World Bank projections for 1991 indicate a decline in aggregate net flows in comparison with last year's level, and they expressed their support for the initiative currently being deliberated by the UN General Assembly on convening an international conference on the financing of development with the active participation of the World Bank and the Fund.

30. Ministers expressed deep concern about the growing problem of net negative transfers from the Bank to an increasing number of World Bank borrowing countries. They called on the institution to undertake a comprehensive study of the issues involved and present it for consideration to the Development Committee at its spring 1992 meeting. Ministers called on the Bank to assist countries in this situation in finding new viable investment projects to be financed by the Bank and to expedite disbursements by reviewing and enhancing the disbursement procedures, especially those for quick-disbursing loans. Furthermore, they urged the Bank to take steps within a specific time frame to solve the aforementioned problems and reverse the recent trend of negative aggregate net transfers from the Bank to developing countries. Likewise, Ministers

urged the Bank to design and put into operation a wider menu of alternatives so that financial packages can best be tailored to countries' specific needs and thus facilitate a balanced flow of resources.

31. Ministers recognized that the achievement of the priority objectives for the 1990s needs to take into account the increasing diversity of conditions in the developing countries. The design of programs for attaining adjustment and development objectives must, more than ever, take into consideration the particular circumstances of individual countries.

32. Ministers expressed support for the emphasis by the World Bank Group on implementing the agreed development priorities across all relevant programs, rather than only through narrowly focused special programs. Country circumstances should dictate how lending is to be distributed among particular sectors and the private / public sector mix that would be most effective in fostering sustainable development and reducing poverty.

33. Ministers encouraged the Bank to strengthen its lending operations while maintaining the importance of its nonlending services to members. They urged the establishment in the World Bank of a permanent Technical Assistance Facility for all member countries, on a grant basis and financed through the Bank's net income and regular budget as well as through bilateral and multilateral cofinancing.

34. Ministers noted with concern that, although official development assistance has assumed an important role, particularly for low-income countries, a sustained increase in those resources is not expected. In this connection, Ministers called on donor countries to review the scope for such an increase, especially where the reduction of international tensions would enable part of the "peace dividend" to be applied for this purpose.

35. Ministers noted that to implement the development priorities of the 1990s for sub-Saharan African and other low-income countries, a broad strategy is gaining wide acceptance, as demonstrated by the global coalition for Africa based on close collaboration between those countries and their partners in the international community.

36. Ministers drew attention to the growing need for resources to support enhanced poverty alleviation programs, structural adjustment, and the reduction of the debt burden of the developing countries. They called for more determined efforts by the OECD countries to progress expeditiously toward reaching within a defined time frame, the internationally agreed official development assistance (ODA) target of 0.7 percent of their GNP.

37. Ministers called for closer collaboration between developing countries and official donors beyond the financing requirements of the developing countries. In this connection, they urged these donors to provide developing countries with technical assistance and to facilitate the transfer of technology in connection with project lending.

38. Ministers recognized the need for "good governance" and for effective management of development policies, and they welcomed the possibility of constructive dialogue with the Bank on all issues related to economic development. However, they urged the Bank to continue to be guided strictly by the limitations of its Articles of Agreement, as elaborated in the Legal Counsel's report, and to resist being drawn into political issues.

39. Ministers called on the industrial countries to increase substantially in real terms their contributions to the Tenth Replenishment of IDA resources, and they pointed out that care should be taken to avoid any deviation from the central objective of IDA (i.e. poverty reduction) by refraining from the introduction of new forms of conditionality.

VII. The Development of Human Resources in Developing Countries

40. Ministers said that in the light of the renewed emphasis on human resource development, they welcomed the Bank's report entitled The Development of Human Resources in Developing Countries and called on the World Bank Group to continue assessing the need to support countries' efforts in this field, and they stressed the of substantially increasing the Bank's support for the development of human resources. Ministers welcomed the significant increase in human-resource development lending by the World Bank in the past four years. They pointed out that the main challenge for countries is to devise the necessary political and technical mechanisms to integrate long-term human development policies with macroeconomic policies, adequate environmental management, demographic factors, and development of infrastructure.

41. Ministers welcomed the recognition by the Bank, in its issues paper on human resource development, that financing of recurrent costs is essential for a successful assistance strategy for human resource development. Ministers urged the Bank as well as other donors to speedily incorporate the concept of recurrent cost financing into their aid strategies for human development.

42. Ministers noted that governments must continue to bear the main responsibility for human resource development. However, they stressed the need to involve the private sector in this field.

VIII. The World Bank Group's Progress in Expanding its Private Sector Activities

43. Ministers noted the strong emphasis placed by the World Bank Group on private-sector development in the context of its existing private-sector development strategy, endorsed by the Board in 1989. They urged the World Bank Group to help mobilize from other multilateral and bilateral donors sufficient additional financing to support and enhance the role of the private sector in developing countries, while strengthening its traditional lending orientation to governments.

44. Ministers emphasized that a proper balance should be struck between the roles of the public and private sectors. They expressed concern about the impact on public

sector infrastructure and institution building of the intensified support being given by the World Bank Group to privatization. They called on the World Bank Group to lend sufficient resources to meet the social and other costs arising from the implementation of this policy. In that connection, additional attention should be given by the Bank and the Fund to facilitating the design, financing, and implementation of adequate safety nets. Ministers called on the IFC to expand its activities in all developing countries, following the recent agreement on the capital increase for the IFC, and to ensure a better distribution of its activities in different regions. Ministers noted the role that MIGA could play in furthering the flows of direct private-investment to developing countries.

IX. The World Bank Report on Women in Development Activities

45. Ministers welcomed the Bank's progress report on women in development activities and recognized the efforts by the Bank in the implementation of the operational strategy on Women in Development (WID). They emphasized the need to continue working to ensure that women's concerns are fully integrated into all aspects of development policies and programs. Ministers stressed that programs for the advancement of women should be designed in the context of the specific circumstances of each country in terms of the country's stage of development and its sociocultural, religious, political, and economic characteristics.

Representation In The Fund And The Bank

46. Ministers underscored, in view of the expanding membership of the Bretton Woods institutions, the critical importance of preserving the genuinely multilateral character of these institutions. They reiterated that new membership should not adversely affect the present geographical representation of developing countries on the Executive Boards of the Fund and the Bank. Ministers also reiterated the importance of ensuring an adequate representation of developing countries in the senior management of the Bretton Woods institutions.