

# **INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS**

## **COMMUNIQUÉ**

**April 26, 1992**

Ministers of the Group of Twenty-Four on International Monetary Affairs held their Forty-Sixth Meeting in Washington, D.C. on April 26, 1992. Mr. Alhaji Abubakar Alhaji, Minister of Finance of Nigeria, was in the Chair, with Mr. Mohamed Badi Al-Khattab of the Syrian Arab Republic as First Vice-Chairman, and Mr. Edin Velásquez of Guatemala as Second Vice Chairman. The meeting was attended by Mr. Michel Camdessus, Managing Director, International Monetary Fund, Mr. Lewis T. Preston, President, World Bank, Mr. Peter Mountfield, Executive Secretary, 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. Ousman Seck, Vice President, Islamic Development Bank, Mr. Jose Rivera Banuet, SELA, Mr. Ernesto Martinez-Alas, CAMC, Mr. Isaac Cohen, ECLAC, Mr. Mohamed Berrada, Morocco, and Mr. Abdelaziz Al-Orayer, Saudi Arabia; Mr. Xiang Cheng, Ministry of Finance, People's Republic of China, attended as invitee.

The Meeting of Ministers was preceded on April 25, 1992 by the Fifty-Ninth Meeting of the Deputies of the Group of Twenty-Four with Mr. Ismaila Usman of Nigeria, as Chairman, and Mr. Mohamed Badi Al-Khattab of the Syrian Arab Republic as First Vice Chairman and Mr. Edin Velásquez of Guatemala as Second Vice Chairman.

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### **ISSUES BEFORE THE INTERIM COMMITTEE**

#### **I. World Economic Outlook**

1. Ministers noted with great concern the decline in world output and the deceleration of trade growth in 1991, and the uncertain prospects for recovery in 1992. This situation, characterized by recession, falling investment demand, and rising protectionism in the industrial countries, shortage of global savings in the context of increasing demand for such savings, high long-term real interest rates, foreign exchange market instability and weakening commodity prices, has impacted adversely on the growth prospects of developing countries and seriously undermined their ongoing macroeconomic adjustment efforts and structural reforms.

2. Ministers stressed that while the revival of the growth of the world economy is a common responsibility, the role of industrial countries in this process remains central. They therefore urged these countries to vigorously pursue policies aimed at restoring consumer and business

confidence and reducing structural rigidities and other impediments to growth, so as to promote sustained non inflationary world economic growth. In this regard, they re-emphasized the need for major industrial countries to implement macroeconomic policies consistent with the medium term strategy of non inflationary growth that permits an improvement in the standard of living of all nations, and not to rely on short-term expedients that could compromise that objective.

3. Ministers noted with the greatest concern industrial countries' growing fiscal and current account deficits, which put so much pressure on international financial markets. They, therefore, reaffirmed the urgent need to increase the effectiveness of Fund surveillance over macroeconomic and trade policies of the major industrial countries, and urged the Fund to prepare the study requested by the G-24 Ministers on appraisal of the surveillance of the macroeconomic policies of the major industrial countries, and present the study before the Fall 1992 meeting of the G-24. Furthermore, they re-emphasized that the adjustment process should be symmetrical, and the cost equitably shared among the various groups of countries.

4. Ministers recognized the need for developing countries to continue to pursue strong and comprehensive structural reforms aimed at enhancing efficiency of resource allocation, fiscal consolidation, and greater resilience to adverse external developments. They called on the industrial countries and the Bretton Woods institutions to support the growth and development efforts of the developing countries through timely, assured, and substantial resource flows, with large concessional components.

5. Ministers welcomed the progress made in the recent past on the implementation of the debt strategy, but they re-emphasized that the debt problem is far from being resolved, as it continues to undermine the success of developing countries' adjustment efforts and their ability to achieve sustainable growth. In this regard, they called on the creditors to provide more meaningful solutions to the debt service difficulties facing debtor countries -- far beyond the current terms -- so as to enhance their growth potential. Similarly, they underscored the importance of a more favorable external environment for the success of developing countries' macroeconomic adjustment programs and structural reforms, and urged the industrial countries to establish a genuinely multilateral trading system along the lines of the current Uruguay Round negotiations.

6. Ministers noted the continuing controversy over the appropriate pace of adjustment measures and the efficacy of financial and trade liberalization measures for countries experiencing severe balance-of-payments and macroeconomic pressures. They called on the Fund and Bank to initiate further studies of the interactions among stabilization and adjustment policy measures in the context of developing countries' specific circumstances.

7. Ministers noted that the enhanced structural adjustment facility (ESAF) has been extremely useful to the developing countries. They welcomed the recent extension of the ESAF to additional countries in need of concessional financing but expressed deep concern that, shortly after this extension, support under the facility may end prematurely in November 1992. If this were to happen, the current and future adjustment efforts not only of these countries, but also of those that have not used the facility, would be seriously jeopardized and the gains of the past reversed, since the conditions that necessitated the establishment of the facility would not have disappeared by November 1992. They, therefore, strongly urged the Fund and the donor

countries to make the ESAF a permanent facility or alternatively to create ESAF-2 to immediately replace it.

8. Ministers reiterated the need for a new substantial and unconditional allocation of SDRs, in the light of global liquidity constraints, to supplement global reserves, and urged those industrial countries that are still opposed to a resumption of SDR allocations to reconsider their position. They called on the Fund's Executive Board to act urgently on the request by the Interim Committee in April 1991 for a further study on the SDR, and urged that it be completed before the next meeting of the G-24. They further urged that favorable consideration be given to making a substantial part of any allocation available to developing countries.

9. Ministers expressed grave concern about the current drought and the serious food situation in Eastern and Southern Africa and the Horn of Africa. They urged the donor community to expedite relief operations and the Bretton Woods institutions to complement and reinforce these operations with appropriate lending instruments.

10. Ministers expressed grave concern about the economic and social conditions in a number of war torn developing countries and called on the donor community to expedite emergency, relief, and reconstruction operations for the recovery and rehabilitation of their economies and essential services.

## **II. Eastern and Central European Countries and Republics of the Former Soviet Union**

11. Ministers welcomed the forthcoming membership of the republics of the former Soviet Union in the Bretton Woods institutions, which would significantly enhance the true global character of these institutions. In this context, they commended the efforts and the perseverance of the Managing Director and staff of the Fund, and the President and staff of the Bank in assisting the admission of these countries into the international financial community. They also welcomed the comprehensive structural adjustment reforms being undertaken by the Eastern and Central European countries and the former Soviet republics for the transformation of their economies into market economies, and pointed out the urgent need for a recovery of their output growth and the integration of their economies into the multilateral trading and financial system. They urged the international community, particularly the major industrial countries, to provide adequate financial assistance to facilitate the transformation process.

12. Ministers welcomed the broad agreement by the G-7 to provide an aid package totaling about \$24 billion to the Russian Federation. However, given the cumulative and anticipated financial assistance to the Eastern and Central European countries and the republics of the former Soviet Union, they emphasized once again that the transfer of resources and assistance to these countries should be additional, and not at the expense of, financial and other assistance to other developing countries, which are still trying to cope with pervasive poverty conditions, heavy debt burdens, and barriers to their exports.

## **III. Progress on Consents to Quota Increases under the Ninth Review and Acceptances of the Third Amendment**

13. Ministers noted that a large number of Fund member countries have now complied with the consent requirements for the Fund quota increase under the Ninth General Review. They stressed the urgent need for the quota increase to come into effect in view of the projected sharp deterioration in the Fund's liquidity position in 1992 and the need to strengthen this liquidity position to enable the Fund to cope with the increasing demand on its resources. They, therefore, urged members that have not done so to take immediate steps before June 30, 1992 to complete the process necessary to bring the quota increase into effect.

14. Ministers urged the Fund to start work on the Tenth General Review of Quotas on time, in accordance with the Articles of Agreement.

#### **IV. Overdue Financial Obligations to the Fund - Review of the Strengthened Collaborative Approach**

15. Ministers expressed satisfaction that, in the past year, the implementation of the strengthened collaborative strategy has resulted in further progress in addressing the problem of overdue financial obligations to the Fund. They noted that the growth of outstanding overdue obligations continued to decline, and there has been an increase in the proportion of maturing obligations settled by overdue members. They called attention to the fact that the problem, in varying degrees, reflects the domestic economic, political, and security situation, as well as international tensions and an unfavorable global economic environment, and urged the Fund to adopt more flexible measures to resolve the problem. They also urged members with overdue obligations to take the necessary steps to become current in their payments to the Fund.

16. Ministers welcomed the decision by the Executive Board to limit the special charges on overdue financial obligations to a period of six months after the emergence of arrears.

17. Ministers restated their concern that the strengthened collaborative strategy on overdue obligations still fails to take cognizance of the scope for implementing provisions in the Articles of Agreement, such as the rescheduling of overdue obligations or the payment of charges in local currency. They called on the Fund to give serious consideration to the possibility of embodying such measures in the strengthened collaborative approach without jeopardizing the revolving character of the Fund's resources.

18. Ministers noted that countries in arrears have been making strenuous efforts to remain current on their obligations to the Fund and have demonstrated their willingness to cooperate with the Fund in finding an enduring solution to the problem by adopting far-reaching macroeconomic reforms and adjustment programs. However, they observed that, so far, only three rights accumulation programs have been agreed with the Fund for countries in arrears. In this connection, they welcomed the extension for one year of the rights accumulation deadline, and encouraged the remaining eligible members and the Fund to avail themselves of the rights accumulation approach during this extended period.

19. Ministers reiterated that the present burden sharing mechanism is inequitable, as it has placed an onerous burden on developing debtor countries vis-à-vis the industrial countries. They called for an urgent reassessment of the principles behind the existing arrangement. They re-

emphasized that equitable and symmetrical burden sharing in a cooperative institution such as the Fund should be based on quota shares in order to ensure the participation of the entire membership of the Fund in the burden sharing mechanism.

## **ISSUES BEFORE THE DEVELOPMENT COMMITTEE**

### **V. Interlinkages Between the Policies of the Industrial and Developing Countries, Emphasizing Trade Aspects**

20. Ministers noted with deep concern that although many developing countries have undertaken far-reaching trade liberalization programs, industrial countries have continued to maintain high levels of protection in sectors that are of vital interest to the developing countries, including textiles, clothing, and agriculture. They expressed concern that failure to remove these barriers would have a profound adverse impact on the growth prospects of developing countries.

21. Ministers noted that the developing countries have offered major concessions in the Uruguay Round and have been liberalizing their trade unilaterally in the hope of encouraging the evolution of an equitable international trade regime. They expressed concern that failure to reach a successful conclusion of the Uruguay Round would weaken the efforts to reduce protectionism and that progress already made in the Uruguay Round would be dissipated. They stressed that the trade liberalization efforts of the developing countries could be sustainable only by enhancing global trade liberalization.

22. Ministers also noted that in the current situation in which the Eastern and Central European countries and the former Soviet republics are moving toward liberal, market-oriented economies, their dependence on the multilateral trading system has increased. They, therefore, stressed that early completion of the Uruguay Round is critical to the growth of developing countries, the Eastern and Central European countries, the former Soviet republics, and world trade.

23. Ministers emphasized the need for strengthening the multilateral trading system, and urged the industrial countries to break the deadlock in the areas of contention, particularly agriculture, textiles and clothing, as well as distortions and controls on goods and services, which have prevented the successful completion of the Uruguay Round. 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 during the transition period.

24. Ministers called on the Fund and the Bank to regularly assess the effects of trade, industrial, and agricultural policies of industrial countries on developing countries, and to take account of these assessments in the formulation of loan conditionality, disbursements, country strategies and technical assistance. They requested the Bank and the Fund to prepare, in cooperation with the GATT, a progress report for the September 1992 meeting of the Group, which should include concrete proposals on the role of the Bretton Woods institutions to encourage the industrial countries to liberalize trade.

25. Ministers noted the increase in the number of regional economic and trade blocs and urged

that these arrangements should be consistent with GATT rules, not lead to higher trade barriers against nonmembers, and should not be a mechanism to divert efforts from multilateral trade negotiations. In this regard, they requested the Bretton Woods institutions to assess the impact of the policies of the major regional trade and economic groupings on developing countries.

26. Ministers noted the proposed text of the Draft Final Act (DFA) presented by the Chairman of the Trade Negotiation Committee in December 1991, which provides a workable framework for the expected GATT agreement. Ministers also noted the proposed establishment of the Multilateral Trade Organization (MTO) and expressed the view that it should facilitate the smooth functioning of the global trading system.

27. Ministers noted the relationship in some cases between trade and the environment and expressed the view that trade should not be used to limit the use of natural resources. They also noted with concern attempts to use environmental issues as an excuse for increased protectionism against developing countries' exports.

## **VI. The Interaction of Environment and Development Policies**

28. Ministers welcomed the renewed emphasis by the Bank on environmental issues, as well as their linkages with other development policies. They noted that the forthcoming World Development Report will focus on environmental issues in great detail. They also noted that environmental issues in developing countries are strongly associated with poverty, and that the solution to both challenges is sustainable and equitable growth.

29. Ministers acknowledged that environmental issues are of global concern and that the solution to the problem must be sought through the cooperative efforts of both developed and developing countries. They reasserted their view that the prime responsibility for environmental pollution lies with industrial countries, which should, accordingly, bear the major share of its costs.

30. Ministers expressed grave concern over the migration of 'dirty' industries to developing countries, as well as the dumping of pollutants and toxic wastes. They strongly urged industrial countries to refrain from such practices.

31. Ministers agreed that environmental priorities in the 1990s in the developing countries must be considered within the context of the development priorities of the national governments of these countries, and should focus on, among others things, improvement of clean water and sanitation; air quality; soil, water and agricultural productivity; natural habitats and biodiversity; and global atmospheric issues. They then called on all countries to implement appropriate policies to that effect, including supportive government investment in infrastructure and measures to increase efficiency in resource allocation.

32. Ministers noted that, as estimated by the World Bank in the forthcoming World Development Report, \$75 billion - \$100 billion per year by the end of the 1990s would be required as incremental environmental expenditure in the developing countries. They emphasized that the developing countries lack financial resources of such magnitude, as well as the adequate technical and technological resources, to cope effectively with the environmental challenges.

Realizing the role multilateral development institutions can play in environmental protection, they called on these institutions to provide the developing countries with technical and concessional financial assistance. They also called on the industrial countries to encourage private investment through existing programs and to increase their financial assistance through enhanced flows of official development assistance (ODA) to stimulate environmental activities. They expressed the view that when expenditures are undertaken in the interest of the preservation of the global environment, they should not be recorded as ODA.

33. Ministers drew attention to the fact that desertification and deforestation are major environmental problems facing a large number of developing countries. They, therefore, recommended that resources required to control or arrest these phenomena should be provided from the Global Environment Facility (GEF), which does not, at present, address these environmental concerns. They also recommended that the United Nations Conference on Environment and Development (UNCED) to be held in Rio de Janeiro, Brazil, in June 1992 should give particular attention to anti-desertification and reforestation programs in its discussions.

34. Ministers stressed that in recognition of their performance in environmental activities so far and for continuity in their effective implementation in the 1990s, the existing development institutions, including relevant United Nations agencies, should handle environmental support activities in the developing countries.

35. Ministers emphasized the significance of the forthcoming UNCED and urged all parties involved to cooperate fully and actively to ensure a successful outcome. They requested the World Bank to submit a report on the Conference for the consideration of the Ministers at their Fall 1992 meeting, emphasizing the financial implications of environmental protection for developing countries.

## **VII. Trends in the Transfer of Resources**

36. Ministers called attention to the fact that, although aggregate net flows to the developing countries rose modestly in nominal terms in 1991, they declined in real terms. They urged the international community to intensify efforts to provide substantial development finance to complement domestic resources to improve developing countries' prospects for sustaining growth-oriented adjustment and poverty alleviation.

37. Ministers welcomed the special assistance to the Russian Federation and other financial assistance to the other former centrally-planned economies and urged that similar resources be provided to the present developing member countries. They further urged that, as part of the "peace dividend," the resources released by the reduction of military expenditure in industrial countries as a result of the end of the Cold War also be used for this purpose.

38. Ministers expressed concern that ODA flows have not kept pace with growth requirements in the developing countries. In this connection, they commended the efforts of those donor countries that have reached and exceeded the internationally agreed ODA/GNP target of 0.7 percent, but expressed concern that most donor countries have yet to attain this target. They,

therefore, reiterated their call on those industrial countries to take concrete and timely measures to achieve the internationally agreed ODA/GNP target.

39. Ministers expressed grave concern about the decline of aggregate net resource flows in 1991 and the growing problem of net negative transfers from the Bank to an increasing number of Bank borrowing countries, and strongly stressed the need to reverse this trend. They noted the recent reversal of negative net resource transfers from the developing countries to the Fund and urged the Fund to sustain this positive trend through flexible access and increased limits. In view of the forthcoming September 1992 meeting of the Development Committee regarding resource flows and transfers, they urged the Bank to prepare proposals for an appropriate utilization of the Bank's increasing net income.

40. Ministers re-emphasized the important role foreign direct investment (FDI) can play to increase resource flows to developing countries, and expressed concern about the recent downward trend in FDI flows. They called on the industrial countries and the multilateral financial institutions to intensify their efforts to promote FDI in developing countries. They also urged industrial countries to consider tax exemptions along the lines of those applied by host countries.

#### **VIII. The Implementation of the Debt Strategy (covering both official and commercial bank creditors, including developments in the area of banking supervision)**

41. Ministers observed with grave concern that in spite of the level of relief provided by the international community to some countries, the debt overhang in the developing countries is still very burdensome. Debt service ratios still remain excessively high and unsustainable, absorbing a substantial proportion of their domestic resources and international reserves, thus seriously undermining their macroeconomic stabilization and growth oriented structural adjustment programs. They, therefore, called on the international community to adopt a more constructive and pragmatic approach to further strengthen the debt strategy. They restated their call on the Bretton Woods institutions to provide technical assistance to improve debt management.

42. Ministers welcomed the recent measures adopted by the Paris Club to provide enhanced Toronto terms for greater debt relief for low income countries but urged that the consolidation periods be extended, and noted that this relief falls short of that in the Trinidad and Tobago terms. They further urged the Paris Club to extend these terms to the lower middle income countries to help revive investment and growth in these countries. Furthermore, they called on the Paris Club to adopt the Trinidad and Tobago terms for the low income countries in full.

43. Ministers stressed that due attention should be given to debt distressed middle income countries, and called on the Paris Club to extend debt relief terms similar to those offered to Egypt and Poland to other countries in a similar situation. They noted the importance of new official export credits or guarantees, particularly given the modernization needs linked to privatization.

44. Ministers took note of the recent Bank staff proposals for extending the validity period of the current guidelines on debt and debt service reduction and a two-year extension of the IDA Debt

Reduction Facility. They, however, expressed concern about the slow progress in the utilization of the facility, and urged commercial banks to be more flexible and forthcoming to enable more countries to utilize the facility. They also noted the proposal by Fund staff for a modification of the guidelines on the use of Fund resources to support debt and debt service reduction operations in order to permit the use of augmentation resources to collateralize principal in par bond exchanges. They urged the two institutions to adopt these proposals expeditiously in order to further strengthen the debt strategy. They requested that the guidelines be further reviewed to make them fully flexible.

45. Ministers reasserted their profound concern about the plight of debt distressed low income and lower middle income IDA-eligible countries, whose debt, mainly to official creditors, is constraining their growth process and further worsening the living standards of their people, especially the poor. They urged creditor governments, as well as the Bretton Woods institutions, to be more responsive to the development needs of these groups of countries and to initiate bold measures to catalyze commensurate debt relief and adequate concessional financing for them, including more meaningful debt cancellation.

46. Ministers called attention to the commendable efforts of some heavily indebted developing countries that have not rescheduled but have regularly serviced their debt. Ministers observed that these countries have not benefited from the debt relief initiatives. Many of them do not have adequate access to official credits and international financial markets. They urged the official creditors and the Bretton Woods institutions to appropriately support the efforts of these countries.

47. Ministers took note of the conclusion of some commercial bank debt restructuring agreements by a few indebted countries. In this connection, noting the limited revival of spontaneous capital flows to these countries, they re-examined the issue of the Cooke ratio and other bank supervisory practices and expressed grave concern that the unduly restrictive regulatory, supervisory, and accounting practices have led to reluctance by the market to undertake sovereign risk lending. They reiterated that, while the industrial countries and the BIS should continue to maintain the soundness of financial institutions, they should review and improve supervisory practices and regulations so as not to bias the banks in industrial countries against lending to developing countries with additional conditions that restrict voluntary credit and investment flows, including fresh money, to developing countries.

48. Ministers observed that the debt problem of the developing countries may remain unresolved despite their implementation of strong macroeconomic stabilization reforms and structural adjustment programs, when their terms of trade continue to deteriorate, global savings to fall, capital and exchange markets are unstable, substantial and timely financial flows are unavailable, and when access to industrial markets is impeded by protectionism. They, therefore, urged the industrial countries to adopt appropriate policies to improve the international economic environment so that the developing countries can export more and grow out of the debt quagmire.

## **IX. The Status of the International Development Association (IDA) Negotiations on the Tenth Replenishment**

49. Ministers called attention to the vital role played by IDA in raising productivity, stimulating economic growth, and reducing poverty in low income countries. They also called on the IDA donor countries to take into account the gains that have been achieved through IDA-assisted operations, the expected large increase in demand for its resources in the 1990s as a result of the growing number of eligible members, and the need to incorporate environmental aspects in the design of projects. They underscored the need for an early conclusion of the IDA-10 replenishment to enable eligible countries to consolidate their gains, maintain their adjustment and development momentum, and make further progress in poverty reduction.

50. Ministers urged donor countries to respond positively before the end of this year, by providing substantial contributions to the IDA-10 replenishment -- which should be significantly higher in real terms than IDA-9 -- to enable the Association to respond expeditiously and effectively to the increased needs of the current and new IDA recipients, including those of the small, land-locked and island countries. They also called on the Bank to ensure that no region suffer any losses from any change in the IDA allocation formula. In this connection, Ministers expressed concern that IDA commitments to sub-Saharan Africa, which had the largest proportion of such commitments to the least developed countries, have witnessed a declining trend in recent years, from 50 percent in FY 1990 to 43.4 percent in FY 1991. They, therefore, urged the Bank that because of the widespread poverty, sub-Saharan Africa's share should at least be maintained at the agreed commitment level for FY 1990.

## **X. Implementing the World Bank Assistance Strategies to Reduce Poverty**

51. Ministers noted the Bank's progress report on its plan of action for reduction of poverty that brought into focus the high priority that must be given to assisting countries to identify and implement more effective strategies to reduce poverty. They expressed concern at the slow and uneven progress in reducing poverty since the 1980s, and urged the Bank to further strengthen its poverty alleviation program through the provision of adequate resource flows and technical assistance.

52. Ministers expressed concern that poverty assessments have not been conducted in many poor countries due to lack of data, institutional weakness, and the sheer size of the task. They urged the Bank to intensify its efforts to help develop and improve the quality and reliability of data on poverty reduction in these countries, which is critical for good planning, and called on the international community to provide adequate funding for improved data collection. Furthermore, they expressed the hope that the slow start in preparing poverty assessments will not jeopardize the completion of the 65 projects planned for FY 1993-95.

53. Ministers called on the industrial countries, multilateral financial institutions, and relevant United Nations agencies to make additional concessional funds available for poverty reduction in the poor countries in view of the high priority that needs to be accorded to poverty reduction in economic development.

54. Ministers recognized that the developing countries themselves have a greater role to play in reducing poverty by ensuring improved institutional capacity, effective use of aid, and the

provision of adequate financing for social services such as education, water supply, health care, and infrastructure.

## **XI. Legal Framework for the Treatment of Foreign Investment**

55. Ministers welcomed the Bank's progress report on the legal framework for foreign investment, which should provide helpful analytical reference for developing countries interested in encouraging foreign investment inflows. In this connection, they emphasized that the guidelines, when formulated, should not constitute an additional Bank lending condition.

## **REPRESENTATION IN THE FUND AND THE BANK**

56. Ministers re-emphasized, in the light of the growing membership of the Fund and the Bank, the need to preserve the true multilateral character of the Bretton Woods institutions. They restated their call that both the geographical representation and voting power of the present developing member countries in the Fund and the Bank should at least be preserved, if not increased.