INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

COMMUNIQUE

April 29, 1993

Ministers of the Group of Twenty-Four on International Monetary Affairs held their Forty-Eighth Meeting in Washington, D.C. on April 29, 1993. Dr. Mohammed Imady, Minister of Economy and Foreign Trade of the Syrian Arab Republic, was in the Chair, with Mr. Willy Zapata of Guatemala as First-Vice Chairman, and Mr. N'Golo Coulibaly of Ivory Coast 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. Luis Jaramillo, Chairman of the Group of 77, Mr. Peter Mountfield, Executive Secretary, Development Committee, Mr. K. Dadzie, Secretary General, UNCTAD, Mr. G. K. Helleiner, G-24 Research Coordinator, Mr. Cristian Ossa, United Nations, Mr. Y. Seyyid Abdulai, Director-General, OPEC Fund, Mr. Ousmane Seck, Vice President, Islamic Development Bank, Mr. Jose Rivera, SELA, Mr. Carlos Vega, CAMC, Mr. Isaac Cohen, ECLAC, Mr. Mohamed Berrada, Morocco, and Mr. Mohammed Aba Alkhail, Saudi Arabia; Mr. Chen Yuan, People's Republic of China, attended as invitee.

The Meeting of the Ministers was preceded on April 28, 1993 by the Sixty-First Meeting of the Deputies of the Group of Twenty-Four, with Mr. Hicham Mutewalli of the Syrian Arab Republic as Chairman, Ms. Antoinette de Bonilla of Guatemala as First Vice-Chairman, and Mr. N'Golo Coulibaly of Ivory Coast as Second Vice-Chairman.

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ISSUES BEFORE THE INTERIM COMMITTEE

I. World Economic Outlook

1. Ministers expressed concern about the weaker than expected recovery in global economic activity after a protracted slowdown since 1990. They observed that the failure on the part of a number of major industrial countries to pursue more balanced fiscal and monetary policies during the past decade, large fiscal imbalances and balance sheet adjustments of financial institutions, and the lack of progress in removing growth-impeding structural rigidities and distortions -- and in the Uruguay Round of trade negotiations -- have limited these countries' ability to respond effectively to the recent economic slowdown.

2. Ministers, while noting signs of economic recovery in North America, were particularly concerned about the weak performance and growth prospects in Europe and Japan. In view of

this, and the fact that inflation is under control, they felt that the time had come to re-focus attention on growth. In this regard, they welcomed the fiscal stimulus package adopted recently in Japan and the steps toward easing of monetary conditions in Europe. They expressed hope that these measures would be conducive to global growth, and
that they would be strengthened if economic activity did not respond.

3. Ministers expressed serious concern about the future of the multi-lateral trading system in light of the slow progress in the negotiations under the Uruguay Round. As failure to conclude the Round successfully is likely to weaken recovery prospects in the industrial countries and thus increase protectionism, threaten the outward-oriented reform strategies being followed by many developing and formerly centrally-planned economies, and thus adversely affect the prospects of global economic growth, Ministers urged all parties to demonstrate the necessary political courage to conclude the Round successfully without further delay.

4. Ministers, noting the recent turbulence in major currency markets, called attention to the adverse global implications of exchange market instability. They stressed that the management of exchange arrangements, such as the European Monetary System (EMS), should take these implications into account. They noted, however, that exchange market instability reflected primarily the underlying divergence between macroeconomic policies and exchange rate commitments.

5. Ministers observed that the medium-term outlook for the world economy is strongly influenced by the ability and willingness of major industrial countries to follow growth-oriented policies. They noted in particular the importance of raising savings from their-current low levels, particularly in those countries where unsustainably large fiscal deficits have put significant pressure on global savings. They also stressed the importance of structural reform aimed at improving resource allocation domestically and internationally. In this regard, they expressed concern about the subsidy and tax policies of the industrial countries that discriminate against the commodity exports of developing countries, such as in the areas of energy and agriculture.

6. Ministers noted with satisfaction that the economic performance and prospects of the developing countries as a group have improved in recent years. They attributed much of this improvement to the determined efforts of developing countries to correct domestic macroeconomic imbalances and remove structural impediments to growth, as well as to the easing of the debt overhang in a number of large middle-income countries.

7. Ministers noted the sharp differences in economic performance and prospects between different developing countries and regions. They drew particular attention to the continued severity of the economic crisis facing most low-income countries in Africa. They welcomed the progressive improve-ment in the terms of debt relief provided by official bilateral creditors. They stressed, however, that the adjustment and reform efforts of many of these countries called for comprehensive debt forgiveness, if these efforts were to succeed in reversing the economic and financial decline they have been experiencing during the last two decades. Ministers also called for more substantive debt relief for middle-income countries -- especially the lower middle-income countries — whose official external debt burden continues to make balance-of-payments viability an elusive target. They urged industrial country creditors to follow through promptly on

the G-7 declaration on this matter made at the 1992 summit.

8. Ministers welcomed the continued support provided by the Fund and the World Bank to countries undergoing debt-reduction operations with commercial bank creditors. They called for further relaxation of the guidelines for Fund and Bank support for debt reduction operations, including the removal of segmentation between set-asides and augmentation resources.

9. Ministers called attention to the commendable efforts of some heavily indebted developing countries that have not rescheduled but have regularly serviced their debt. They reiterated that these countries have not benefited from the debt relief initiatives, and that many of them did not have adequate access to official credits and international financial markets. They urged official creditors and the Bretton Woods institutions to give appropriate support to the efforts of these countries.

II. ESAF Successor

10. Ministers welcomed the constructive role of the Fund in support of structural adjustment in the low- and lower middle-income countries and the significant progress achieved by many of these countries under Fund -supported programs. They particularly underscored the important contribution of the enhanced structural adjustment facility (ESAF).

11. Ministers observed that, in spite of domestic policy reforms by developing countries and progressive debt relief by creditors, the external economic environment facing the low- and lower middle-income countries is even less favorable today than it was when the ESAF was established. They noted, in particular, the continued deterioration in the terms of trade facing exporters of primary commodities. They stressed that adequate Fund support in the period ahead would be crucial to preserve and enhance the progress already achieved by countries that have implemented structural adjustment facility-supported or ESAF-supported programs, as well as to assist those countries that are embarking on such programs in the future.

12. Ministers welcomed the recent consideration by the Executive Board of the modalities of an ESAF successor. They expressed a strong preference for a permanent successor facility. Ministers noted that SDR 6 billion in total financing under a successor facility, as proposed by the Fund's Managing Director, represents only about 4 percent of the aggregate financing needs of the eligible countries. They stressed the importance of maintaining the same degree of concessionality currently provided under the ESAF to all potential users of the successor facility.

13. Ministers also welcomed the recent Board review of the experience with ESAF programs, and called on the Fund and the World Bank to draw on that experience in assisting countries in the formulation of programs under a successor facility. Ministers pointed out that programs supported by the ESAF or an ESAF successor are more likely to succeed when they are focused on a few key areas, taking into account the country's implementation capacity. In this regard, they stressed that the phasing of reform programs should be compatible with the institutional, administrative, and technical constraints in these countries. They also emphasized the importance of social safety nets in mitigating the short-term costs of adjustment, and called on the Fund and the World Bank to examine ways of making social safety nets more effective.

III. Surveillance

14. Ministers reaffirmed the Fund's special role in promoting economic policies that take into account the well-being of the international economy as a whole. They noted that Fund surveillance can be instrumental in providing a genuinely global perspective for policy making. They expressed disappointment that the response of the major industrial countries to Fund policy advice has continued to be quite limited. Ministers urged the Fund to use the available mechanisms and procedures including follow-up and special consultations, and to consider new mechanisms if needed, in order to encourage members with a substantial impact on the international economy to follow policies that are consistent with accepted global objectives. They called on the Fund to pay particular attention, through its surveillance role, to the structural distortions in the industrial countries that impede the efficient allocation of global resources, and to the implications of their macroeconomic and trade policies for the developing and transitional economies.

15. Ministers agreed that, where justified by the level of regional integration, bilateral consultations should be complemented by regional contacts involving the relevant common institutions. They noted that the EMS was an obvious candidate for such a broadening of surveillance, particularly in view of the global spillovers of developments in the EMS.

16. Ministers noted the recent broadening of the policy on enhanced surveillance. While agreeing that enhanced surveillance could provide a useful mechanism for Fund involvement in certain circumstances, they cautioned against this procedure being seen as a substitute for normal Fund assistance through its facilities, or as a precondition for bilateral assistance.

IV. Systemic Transformation Facility

17. Ministers commended the Fund for responding to the urgent needs of countries experiencing balance-of-payments difficulties as a result of serious disruptions in their traditional trade and payments arrangements. They considered the establishment of a new facility to provide prompt assistance to those countries as a demonstration of the Fund's ability to flexibly tailor its policies and procedures to the evolving needs of the membership. Ministers noted that countries that qualify for Fund assistance under the systemic transformation facility (STF) are not restricted to one region. They called on the Fund to give due attention to the needs of all members that are experiencing balance-of-payments difficulties associated with systemic economic transformation.

18. Ministers noted the potentially higher risks for Fund resources associated with the new facility, and stressed the importance of safeguards and assurances received from major creditor countries in this regard. Ministers insisted that the Fund should not use safeguard mechanisms that would involve a higher cost on the use of Fund resources, at a time when the rate of charge has already increased significantly above the SDR interest rate. In this context, they urged the Fund to re-examine the system of burden sharing with a view to relating it more closely to quotas and making it more equitable.

19. Ministers noted that early and flexible support by the Fund would be warranted in a variety

of other circumstances in which the requirements of the regular mechanisms for Fund involvement could not be fully met. They called on the Fund to examine ways of enhancing the adaptability of its regular policies and procedures -- including conditionality -- in order to allow it to respond promptly and flexibly when needed.

V. SDR Allocation

20. Ministers recalled that a long-term global need to supplement reserves, which is the criterion for a new SDR allocation, has been established for some time now, as the analysis of the Fund staff had demonstrated. They noted in particular that the courageous stabilization and reform efforts of a number of countries in important parts of the world were currently being put at risk by inadequate levels of international reserves, and that these countries were not in a position to absorb the economic costs of building up reserves through, inter alia, further import compression. They also noted that the reserve needs of the new Fund members have added a systemic element additional to the need for reserve supplementation.

21. Ministers again called attention to the fact that the Fund's Articles of Agreement required members to collaborate with the Fund "with the objective of making the SDR the principal reserve asset in the international monetary system." They strongly supported the Managing Director's recommendation for an allocation of SDR 36 billion, which aimed at the modest objective of restoring the share of SDRs in world reserves to the average of the last two decades. Ministers therefore strongly urged those who are still opposed to an allocation to reconsider their position.

VI. Overdue Financial Obligations to the Fund, and Suspension of Voting and Related Rights Under the Third Amendment

22. Ministers recalled that the strengthened cooperative strategy to deal with the problem of overdue financial obligations to the Fund has been broadly successful, even though substantial arrears remain. The majority of the 11 countries with protracted arrears at the end of 1989 have either cleared their overdue obligations or are working closely with the Fund toward eventual settlement. The rights accumulation approach remains an important aspect of the strengthened cooperative effort, and they welcomed its extension for another year.

23. Ministers noted that the majority of countries in arrears were experiencing domestic and external difficulties that have severely limited their capacity to address their economic problems, which would allow them to start cooperating with the Fund and eventually to clear their arrears. They called on the Fund to consider such constraining factors in the application of further remedial measures, as provided under the Third Amendment of the Articles of Agreement, and urged that the suspension of voting and related rights be applied only as a last resort.

ISSUES BEFORE THE DEVELOPMENT COMMITTEE

VII. Developing Country Access to Private Capital Flows

24. Ministers welcomed the forthcoming Development Committee discussion of developing country access to private capital flows. The worldwide shift of interest toward private-sector development has posed numerous policy issues that require close international cooperation and greater involvement of business leaders and financial market analysts. In this respect, Ministers endorsed the initiative of the Development Committee Chairman to solicit practical suggestions from outside experts in the expectation that this would help steer Committee discussion toward more action-oriented recommen-dations. To ensure a better balance of views of host and source countries, the new arrangement could be further enhanced by utilizing more input from the business and financial community in developing countries, as well as the suggestions of research papers commissioned by the Group of Twenty-Four.

25. Ministers urged that a comprehensive assessment be made of prospects for private capital flows to developing countries, taking into account that, in many cases, even when the necessary macroeconomic and institutional reforms have been put in place, little capital flows have been attracted. There has been a broad consensus that the prospects of private capital flows to low- and lower middle-income countries, especially in sub-Saharan Africa, remain poor. Ministers, therefore, strongly urged that the attention now directed to capital flows should not weaken international resolve to mobilize concessional assistance to the low- and lower middle-income countries. Adequate flows of such resources will continue to be critical to the efforts of the poorer countries to bring about poverty reduction and sustainable growth. Ministers also stressed the importance of additional concessional flows to finance environmental programs in developing countries in fulfillment of the undertakings of the Rio summit. They further urged that the Global Environment Facility replenishment negotiations shortly to start in Beijing reach agreement on substantial commitments.

26. Ministers expressed appreciation for the conclusion of the Tenth Replenishment of IDA resources and underscored the urgency of finalizing the ratification process to ensure timely effectiveness of the Replenishment. It was, nevertheless, noted with concern that the "earth increment," as proposed by the President of the World Bank during the Earth Summit, was not approved in the context of IDA's Tenth Replenishment, although its need was acknowledged as essential for the implementation of environmental programs in IDA-eligible countries. More generally, Ministers commended the efforts of donor countries that have reached or surpassed the internationally agreed official development assistance (ODA) target of 0.7 percent of GNP. They reiterated their call on those industrial countries that have not yet done so to take the necessary measures to achieve this target. The average level reached by industrial countries has unfortunately been less than half the target. The availability of ODA financing will facilitate the efforts of developing countries to continue their reform programs, build their infrastructure, and improve their human resources. This will be crucial in attracting private capital flows.

27. Ministers agreed that the appropriate framework for addressing the issues of developing country access to private capital flows is to consider actions by the three main groups of players: developing countries, industrial countries, and international financial institutions. On a basic issue common to all parties, Ministers underlined the contribution that can be made by a global agreement on rules of good conduct on the part of foreign investors. A draft Code of Conduct has been prepared by the UN covering some vital aspects, such as labor relations, working conditions, environmental and consumer protection, and disclosure of information by foreign

corporations. While agreement on such a code is yet to be finalized, Ministers reaffirmed the need to take such principles into account, so as to avoid unnecessary conflicts and to ensure that foreign investors respect the values and priorities of host countries.

VIII. The Role of Developing Countries

28. Ministers noted that, in the past few years, developing countries in all regions have introduced a wide range of measures and incentives to promote private-sector development and encourage private capital flows. One indicator of these policy efforts is the steadily increasing number of World Bank private-sector development operations and the massive privatization programs undertaken in the past few years. Largely in response to these efforts, the share of private investment in GDP has improved notably in the past two years and the flow of direct and portfolio investment has increased steeply. As Bank and Fund documentation clearly shows, however, most of these gains have been confined to a relatively small number of countries and remain vulnerable to changes in the external environment.

29. Ministers recognized that, in order to promote private sector develop-ment and capital flows of meaningful and sustainable magnitudes developing countries should pursue clearly defined strategies and adopt appropriate measures in cooperation with source countries and international institutions. Ministers considered that the basic strategy should be based on the premise, fully endorsed in Bank and Fund documents and by outside experts, that the development of a healthy domestic private sector in host countries is an essential requirement for accelerated private capital flows. As experience has demonstrated, creating a healthy private sector requires not only appropriate macroeconomic policies, but also a range of institutional measures and a reasonably competent human resource base.

30. Ministers reviewed the specific suggestions for developing country policy actions submitted in the documentation for the Development Committee by Bank and Fund staff and outside experts. They considered that many of these ideas should be of great interest to developing country policy-makers. They encouraged developing countries and international financial institutions to undertake expert studies on these suggestions, with the aim of identifying practical and feasible actions that may be submitted for future Development Committee consideration.

31. Ministers noted the progress achieved by a large number of developing countries in the effort to privatize and restructure publicly-owned enterprises and improve the efficiency of the public sector. Ministers pointed out the complexity of this process and its wider economic, social, and political implications. They, therefore, strongly urged that the pace and manner of restructuring and privatization should not be subject to undue pressures that might undermine the viability of the process.

IX. The Role of Industrial Countries

32. Ministers noted that Bank and Fund documents and the views of outside experts clearly demonstrate that private capital flows can be facilitated substantially by industrial country measures, especially in the area of easing restrictions and regulations. Apart from the obvious contribution that the reduction of fiscal imbalances and the increase in private savings in

industrial countries can make to the flow of capital to developing countries, a number of specific actions that can yield tangible results have been identified.

33. Ministers pointed out, among these actions, the scope for easing provisioning requirements on commercial banks without impairing prudential standards; more differentiated capital adequacy standards; and the elimination of discriminatory regulations on developing country access to capital markets. On the latter measure, it has been estimated that a modest tax incentive to the multi-trillion dollar institutional investor market in industrial countries can yield a substantial transfer of capital to developing countries. Moreover, they pointed out the usefulness of eliminating the implicit tax disincentives in the existing regulatory framework of major financial markets, which would facilitate the re-establishment of access to voluntary capital flows by countries that have implemented macroeconomic reforms. Ministers also pointed to other suggestions submitted for industrial country consideration, such as partial bilateral or multilateral guarantees for investors' profits, an increase in the flow of guaranteed export credit, expanded bilateral fiscal and taxation treaties, and liberalizing immigration arrangements to permit exchange of human capital.

34. Ministers reiterated that the liberalization of trade by industrial countries would have a critical impact on the prospects of developing countries and the world economy as a whole. Present documents also demonstrate the relevance of an open global trade system to promote private investment in developing countries, since the profitability of investments in developing countries is obviously affected by the access of their exports to industrial country markets. The World Bank President's report to the Development Committee pointed most appropriately to the extreme urgency of a successful conclusion of the Uruguay Round. It also rightly pointed out that the failure of trade negotiations will lead to severe negative consequences for the global economy and to the weakening of the efforts of developing countries to liberaliza their trade policies. Ministers, therefore, strongly endorsed the Bank President's call for Ministers to lend their considerable influence in their capitals to ensuring that the Uruguay Round is concluded successfully and promptly. Pending the achievement of a successful and mutually advantageous conclusion, Ministers called on the advanced trading partners not to further limit access of developing country exports to their markets. Ministers reiterated the need for specific offsetting measures for the net food-importing developing countries.

X. The Role of International Financial Institutions

35. Ministers emphasized the critical role that international financial institutions can play in promoting the flow of private capital to developing countries, through their support of policy reform programs, investment financing, catalyzing private capital, and alleviation of the debt burden. In this latter regard, the experience of recent years has clearly demon-strated the large positive impact that a reduction in the debt overhang can have on the inflow of private capital. Ministers welcomed the growing emphasis of the World Bank Group on the "second generation" of private-sector development efforts that combine institutional changes with traditional policy reforms. They underscored the importance of direct lending to build up developing country infrastructure and human capital. Investment operations of this type are mutually reinforcing, and help create the climate for enhanced capital flows by easing physical and manpower constraints in the host countries. They also noted the Bank's efforts in finalizing the Legal Framework for

the Treatment of Foreign Investment, which should be helpful for host countries undertaking such legal reforms.

36. Ministers considered that, in view of the extra efforts needed to promote private-sector development in low- and lower middle-income coun-tries, there is room for a more active role by the international financial institutions in their co-financing and guarantee operations in these countries. In this respect, they also endorsed the call for international institutions to consider what special measures can be taken to help the low- and lower middle-income countries attract more capital flows.

37. Ministers noted that a large number of specific suggestions to improve the effectiveness of international financial institutions in promoting capital flows has been submitted to the Development Committee. These include suggestions to expand Bank guarantees without affecting its lending capacity, establish regional mutual funds, help create an international agency to rate private companies in developing countries, and promote the use of hedging mechanisms. Ministers called for further analysis to be undertaken by the Bank and the Fund in order to formulate, where appropriate, more specific proposals to their Executive Directors and to the Development Committee as a follow-up to the Committee's discussion of capital flows to developing countries.