

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

FORTY-NINTH MEETING OF MINISTERS

COMMUNIQUE

September 25, 1993

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs held their Forty-Ninth Meeting in Washington, D.C. on September 25, 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. Rudolf Hommes, Chairman, Development Committee, Mr. Yilmaz Akyuz, UNCTAD, Mr. G. K. Helleiner, G-24 Research Coordinator, Mr. Cristián Ossa, United Nations, Mr. Y. Seyyid Abdulai, Director-General, OPEC Fund, Mr. Abdurahman Nur Hersi, Islamic Development Bank, Mrs. Manuela Rangel, SELA, Mr. Isaac Cohen, ECLAC, Mr. Boediono, Indonesia, Mr. Mohamed Berrada, Morocco, and Mr. Abdelaziz N. Alorayer, Saudi Arabia; Mr. Jin Renqing, People's Republic of China, attended as invitee.

The meeting of the Ministers was preceded on September 24, 1993 by the Sixty-Second Meeting of the Deputies of the Group of Twenty-Four, with Mr. Hicham Mutewalli of the Syrian Arab Republic as Chairman, Mrs. Antonieta de Bonilla of Guatemala as First Vice-Chairman, and Mr. N'Golo Coulibaly of Ivory Coast as Second Vice-Chairman.

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World Economic Outlook

1. Ministers expressed concern about the current state of the world economy, noting in particular the sluggish recovery in a few industrial countries, the persistence of recessionary conditions in several others, and the uncertainty of the prospects for growth in 1994. They observed that only limited progress has been made in implementing the global cooperative growth strategy adopted by the Interim Committee in April 1993. They under-scored the urgent need to intensify the effort to strengthen the prospects for a durable global expansion. They observed that excess capacity and the improved outlook for inflation in the industrial countries provide scope for measures to achieve this objective, particularly in Europe. They were encouraged by Japan's recent interest rate reduction and announcement of a fiscal stimulus package.

2. Ministers noted that the failure of most industrial countries to pursue more balanced macroeconomic policies during the current phase of the business cycle was due in part to their failure to take advantage of the opportunity presented by the prolonged expansion of the 1980s to introduce durable improvements in their underlying fiscal positions, and to adopt reforms such as

those implemented by a number of developing countries in the same period. While noting the possible adverse effects on economic activity that deficit-reduction measures may entail in the short run, they were encouraged by the favorable reaction of financial markets to the recent adoption of significant fiscal measures in the United States and Germany. They considered that a decisive reduction in government agricultural and industrial subsidies, which impede the efficient allocation of resources -- at both the national and global levels -- should feature prominently in the fiscal consolidation efforts of the industrial countries.

3. Ministers emphasized the inadequacy of existing mechanisms for policy coordination evidenced by the series of European exchange-market crises during the past year and, more generally, the limited progress made toward ending the prolonged phase of global economic weakness. They noted that, to be effective, coordination processes must be based on a careful consideration of the full range of international externalities and feedbacks that are associated with domestic policy choices, and that, by virtue of its international character and expertise, the Fund is uniquely placed to provide a full evaluation of those externalities and feedbacks. They therefore called on the Fund to play a more active role in policy coordination among the industrial countries, and to continue to strengthen its surveillance role in these countries.

4. Ministers considered that recent developments in the exchange rate mechanism of the EMS should provide greater scope, for monetary easing in Europe. In this context, they called attention to the fact that the behavior of long-term interest rates in Europe over the past few months suggests that this scope for added flexibility could be exploited without endangering price stability.

5. Ministers welcomed the continuation of relatively strong growth in the developing countries as a group, particularly in many countries of Asia and Latin America. However, they observed that this strong performance in the aggregate masks wide disparities in performance among various regions in the developing world, noting in particular the plight of many sub-Saharan African countries, where per capita real incomes are currently lower than they were more than a decade ago, and where the debt burden is higher than in any other region of the world. They also observed with concern that commodity prices have declined by about 25 percent in constant dollar terms from their 1990 average, underscoring in particular the adverse impact of this decline on developing countries, especially the sub-Saharan African countries, as well as the agricultural commodity and oil exporting countries. Weak commodity prices contributed to the trade deficits of developing countries, which tripled between 1991 and 1992. Ministers expressed concern about the likely continued deterioration in their terms of trade in 1993.

6. Ministers underscored the positive contribution that the expansion of developing country markets has made to international trade and world economic activity, in particular during the recent economic slowdown in the industrial countries. They noted with satisfaction the growing economic integration among the developing countries, and observed that there is much scope for intensifying that trend. However, they stressed that the rise in interdependence among the developing countries should not diminish the importance of enabling them to achieve a greater measure of integration, through trade and financial flows, with the industrial country economies. In this connection, Ministers welcomed the recent study on some of the effects of industrial country macroeconomic policies on developing countries, prepared by their own expert. They

drew attention to the study's principal conclusion that performance of the developing countries is not only affected by industrial country policies, but also directly affects the prospects for growth in the industrial world. Ministers called on the Fund to continue work on the interdependencies between industrial and developing country policies as an integral part of its surveillance responsibilities.

7. Ministers recognized that the resurgence of private capital flows to a number of developing countries is, by and large, a sign of the success of the adjustment and reform efforts of these countries. They observed that these flows can also pose important challenges to macroeconomic management. They underscored the important role that the Bretton Woods institutions have played in supporting these adjustment and reform efforts, and they stressed the need to enhance to the fullest extent possible the recipient countries' capacity to utilize the inflows in a manner that furthers their potential for higher investment and growth. They noted that for a large number of countries, the prospects for a resumption of private capital inflows remain uncertain underscoring the importance of ensuring the availability of adequate official financing to meet the adjustment and investment needs of these countries.

International Trade

8. Ministers viewed with serious concern the pervasive intensification of protectionist pressures that has accompanied the rise in unemployment in the industrial countries since the late 1980s. They stressed that measures to address unemployment by intensifying protectionism distort resource allocation, delay needed structural adjustment, and lead to lower real incomes and welfare. They therefore called on these countries to embark on a comprehensive agenda for reforming their labor markets with a view to making them more responsive to market signals and the imperatives of technological change.

9. Ministers regretted the repeated delays in concluding the Uruguay Round, and stressed that bringing the Round to a successful conclusion -- one that benefits all participants -- is a matter of utmost urgency. They observed that failure to reach agreement would erode business confidence and undermine the outward-oriented reform strategies that are being followed by many developing countries, as well as formerly centrally-planned economies. In this context, they noted with concern the EC's imposition of counter-vailing duties on imports of fruits and vegetables, and urged the EC to reorient its trade policies with a view to creating a more open import regime based on comparative advantage.

10. Ministers observed with concern the growing use of anti-dumping measures by several industrial countries in retaliation for other trade problems. Such measures hinder proper resource allocation and the smooth flow of goods and services. Accordingly, they requested the GATT to study the effects of such measures, and alternative mechanisms to counteract dumping.

11. Ministers emphasized the enormous costs of protectionist policies of the industrial countries borne by consumers in those countries themselves, citing estimates in a recent GATT report that put the cost of agricultural subsidies to consumers in OECD countries at about US\$355 billion in 1992. They observed that these subsidies are akin to import duties, as are the highly distorting and discriminatory taxes on oil products in the industrial countries.

12. Ministers noted that a large number of developing countries have successfully reduced or eliminated subsidies. They urged industrial countries to reconsider their subsidy policies, and requested the Fund to prepare a study on this issue. They reiterated their call for specific offsetting measures for net food-importing developing countries, including food and financial aid, as well as technical assistance, to improve food production in these countries during the transition period.

Debt Situation

13. Ministers noted with satisfaction that the debt difficulties of the 1980s have been alleviated for a number of middle-income countries. They considered that debt reduction has played a critical role in supporting these countries' efforts to regain access to the international capital markets. In this connection, Ministers underscored the constructive role that the Bretton Woods institutions have played in supporting debt-reduction operations. They welcomed the Fund's intention to modify in the near future the segmentation provisions contained in the guidelines on the use of its resources in support of these operations. They stressed that this modification should take fully into account the need to eliminate the undue rigidities imposed by these provisions.

14. Ministers observed that, notwithstanding the progress achieved, the debt crisis is not over. In this connection, the domestic fiscal aspects of the debt problem have not been addressed effectively. They noted that only 14 of the 57 countries that have rescheduled their official debt over the past decade have resumed normal relations with creditors. In this context, they called on the Paris Club to provide substantially improved debt relief for low-income countries, including debt stock reduction. They also emphasized the need for concessional treatment, through debt and debt-service reduction, of the debt of lower middle-income countries that are heavily indebted to official bilateral creditors. They also underscored the importance of adequately addressing the needs of those heavily indebted developing countries that have continued to service their debt in accordance with originally agreed contractual terms.

Stabilization and Reform in the Formerly Centrally-planned Economies

15. Ministers observed that the transformation process in the formerly centrally-planned economies is expected to continue to place heavy demands on official assistance resources for some time to come. They therefore emphasized the need for strengthened stabilization policies in many of these countries, as well as the vital importance of enhancing the reforming countries' access to foreign markets. They also emphasized the need for an early resolution of common trade and payments issues among these countries, and underscored the importance of paying due attention to the difficulties that a number of the reforming economies face as Russia and other energy producers in the former Soviet Union move toward world market prices for energy.

16. Ministers noted the experience to date with the systemic transformation facility (STF), and called on the Fund to provide early and flexible support in a variety of other circumstances in which the requirements of the regular mechanisms for Fund involvement could not be fully met by these countries and other developing countries. They reiterated their call on the Fund to

examine ways of enhancing the adaptability of its regular policies and procedures in order to allow it to respond promptly and flexibly when needed.

Progress toward a Successor to the Enhanced Structural Adjustment Facility

17. Ministers viewed with concern the slow progress made since the last meeting of the Interim Committee toward establishing an ESAF successor facility. They underscored the importance of prompt action on this front to ensure the Fund's continued ability to extend concessional financial assistance in the post-ESAF period.

18. Ministers regretted the downward adjustment in the size of the proposed facility, noting that the initially targeted amount of SDR 6 billion represents only about 4 percent of the aggregate financing needs of the eligible Fund members. They noted the revised assumption on utilization that led to the scaling down of the estimate on the resource need, and they called on the international community to stand ready to help mobilize quickly the financing needed by those members currently in protracted arrears whose financing needs are not taken into account at present, at such time as they advance to the appropriate stage through the cooperative arrears strategy. They also reiterated the importance of maintaining the same degree of concessionality currently provided under the ESAF for all potential users of the successor facility.

SDR Allocation and Related Issues

19. Ministers reiterated their strongly held view that a new SDR allocation is urgently needed and fully justified by the provisions of the Fund's Articles of Agreement. They renewed their call on the industrial countries opposed to an allocation to reconsider their position.

20. Ministers noted that a new allocation of SDR 36 billion, as proposed by the Fund's Managing Director, could be expected to meet only a modest part of the projected demand for reserves during the remainder of the sixth basic period (1992-1996). They considered that a post-allocation redistribution of SDRs in favor of the developing countries would amplify the systemic benefits of the allocation. They stressed, however, that the focus at this stage should be on securing the broad support needed for a new allocation. Ministers also stressed that the fact that 38 new Fund members have not participated in previous SDR allocations adds to the strength of an already compelling case for a new allocation at this stage.

Transfer of Resources

21. Ministers regretted that resource flows from official sources in 1992 have once again declined, as did net flows of official development assistance. A large and welcome increase in private resource flows has materialized in 1992, but only a few countries have benefited from such flows. Private flows to the poorest countries, including in sub-Saharan Africa, have in fact been negative. Furthermore, the prospects for official aid flows are disappointing.

22. Ministers noted that the declining trend in aid flows is being attributed to weakening public support in some of the major donor countries, a preoccupation with domestic problems, and concerns about the effectiveness of aid utilization. Ministers pointed out that such concerns,

which are not new, have surfaced more visibly under pressures emanating from the weak performance of major country economies and are largely based on mis-conceptions about the contributions of official assistance. They also pointed out that budgetary implications of current volumes of aid extended by industrial countries -- which remain at barely half the internationally agreed target of 0.7 percent of GNP -- are exaggerated. They strongly urged the Development Committee, bilateral donors, and international institutions, especially the World Bank and the Fund, to greatly intensify their efforts to improve public understanding of these issues and to help mobilize wider political support in the industrial countries for increased aid flows to ensure attainment of the internationally agreed target.

23. Ministers noted the efforts of some war-torn countries to rehabilitate and reconstruct their economies and called on industrial countries and the international financial community to support these efforts through adequate financial assistance, in particular, the provision of adequate official development assistance.

World Bank Group Resources and Lending

24. Ministers welcomed the increase in IBRD/IDA lending commitments and disbursements in the fiscal year 1993. However, they noted that most of the new commitments have been directed to the formerly centrally-planned economies, with little additional lending to the traditional borrowers. While recognizing that the assessment of lending adequacy should not be made on the basis of one year's returns of commitments, Ministers recalled the assurances that were given that lending to new members would not be at the expense of traditional borrowers. These borrowers have been experiencing negative transfers from the Bank at a time when most of them continue to shoulder the heavy burden of poverty alleviation.

25. Ministers observed that, despite the ample headroom now available for the IBRD, the ability of the Bank to respond to the needs of low-income countries will depend on the concessional resources at its disposal. In this respect, Ministers strongly urged that members move with urgency to ensure the speedy effectiveness of the IDA-10 replenishment, and to expedite the replenishment and restructuring of the Global Environment Facility. They also urged donor countries to strongly support the third phase of the Special Program of Assistance to sub-Saharan Africa during the forthcoming negotiations.

Adjustment Experiences in Low-income Countries

26. Ministers welcomed the Development Committee's forthcoming discussion of the adjustment experiences in low-income countries and their implications for financing needs. They noted that the Bank and Fund documentation prepared for the Committee has underscored a number of key factors, including consistent adjustment policies, a longer time frame for structural reforms, employment-enhancing growth -- especially in agriculture -- and the strengthening of institutional and administrative capacity. Ministers endorsed the basic thrust of the analysis, and they pointed out that, with about 40 low-income countries now in various stages of adjustment and reform programs, the strong support of the international community -- in the form of adequate concessional assistance, more open markets, and debt reduction -- is critical to the success of these programs.

27. Ministers welcomed the supplementary documentation submitted to the Development Committee on this issue. They urged in particular the Bank and Fund to continue to keep under review the main issues raised, including the crucial importance of the ownership of adjustment programs, the effective-ness of conditionality, and the design of technical assistance.

28. Ministers expressed concern that disruptions in some low-income coun-tries, as in other developing countries, have undermined the success of their stabilization and reform programs. Given cross-conditionality, such disruptions may jeopardize expected disbursements from several sources. In this context, Ministers urged the multilateral organizations to act with more flexibility in supporting the programs of those countries.

Social Security Reforms and Social Safety Nets

29. Ministers noted that the experience of governments, donors, and international institutions with social security reforms and social safety nets is relatively recent. They considered that more analytical work and extensive exchange of views on the experience so far would be needed in light of the potentially large fiscal implications of social security systems and the key contribution of safety nets to maintaining public support for adjustment and reform programs.

30. Ministers emphasized that the design of social security systems should reflect specific country conditions, including the feasibility of contribu-tory systems. They considered that safety nets should be an integral part of stabilization and reform programs, and that they should also be transitional in design and well targeted. They also stressed that the active role of donor agencies and international institutions in financing safety nets is especially crucial for the low-income countries.

The Fiftieth Anniversary of the Bretton Woods Institutions

31. Ministers welcomed the planned meetings on the fiftieth anniversary of the Bretton Woods institutions. They considered that these landmark meetings should provide an opportunity to take a long-term view of the working of the international monetary and financial system, experience with the development process, and the role of the developing countries in the international decision-making process. They expressed the hope that deliberations on these issues will contribute to a much needed strengthening of international economic cooperation and its institutions. In this context, they underscored the importance of examining ways to enhance the role and effectiveness of the Interim Committee and Development Committee, and to ensure that the views and interests of developing countries are presented effectively at the policy coordination fora of the industrial countries.