

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

## **Communiqué**

**April 25, 1995**

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs held their Fifty-Second Meeting in Washington, D.C., on April 25, 1995. Mr. N'Goran Niamien, Minister Delegate to the Prime Minister in charge of Economy, Finance, and Planning for Ivory Coast, was in the Chair, with Mr. Muhammad Yaqub of Pakistan as First Vice-Chairman and Mr. Antonio Casas-González of Venezuela as Second Vice Chairman. The meeting was attended by Mr. Michel Camdessus, Managing Director, International Monetary Fund, Mr. Gautam Kaji, Acting President, World Bank, Mr. Mohammed Kabbaj, Chairman, Development Committee, Mr. Shahen Abrahamian, UNCTAD, Mr. G. K. Helleiner, G-24 Research Coordinator, Mr. Raul Rabe, G-77, Ms. Helga Hoffman, United Nations, Mr. Y. Seyyid Abdulai, Director-General, OPEC Fund for International Development, Mr. Osama Faquih, Islamic Development Bank, Ms. Manuela de Rangel, Latin American Economic System, Mr. Jin Renqing, People's Republic of China, Mr. Saboni Benyoussef, Morocco, and Mr. Abdelaziz N. Alorayer, Saudi Arabia.

The meeting of the Ministers was preceded on April 24, 1995 by the Sixty-Fifth Meeting of the Deputies of the Group of Twenty-Four, with Mr. Tiemoko Kone of Ivory Coast as Chairman, Mr. Azizali Mohammed of Pakistan as First Vice-Chairman, and Mr. William Larralde-Páez of Venezuela as Second Vice-Chairman.

### **I. World Economic Situation and Outlook**

1. Ministers welcomed the progress made with the ratification of the Uruguay Round Final Act and the establishment of the World Trade Organization (WTO) and encouraged this organization to put in place the necessary machinery to efficiently play its expected role, in particular to ensure respect for the principles of international trade so as to promote commercial exchanges, create equitable opportunities for access to markets, and thereby to strengthen the growth potential of all member countries. They expressed special concern about the imposition of restrictions on the pretext of environmental protection and the improvement of social and employment conditions, since that is contradictory to the spirit of the Uruguay Round Final Act.

2. Ministers emphasized that there should be greater flexibility in providing access to international and other financing mechanisms for developing countries that are expected to be adversely affected during the transition, and that disbursements should be more rapid so as to smooth the transition process, especially for the net food importing countries. Ministers reiterated that the Bretton Woods institutions should study forthwith the possibility of putting in place new mechanisms that could be used, as needed, to deal with the losses stemming from the implementation of the Uruguay Round.

3. Ministers noted the appreciable progress made to subdue inflation in the industrial countries. However, they expressed deep concern about recent instability in the exchange markets for the major reserve currencies, which clearly indicates the need for a better coordinated adjustment process and a more appropriate fiscal and monetary policy mix in the industrial countries.

4. Ministers pointed out that, despite some progress made by certain major industrial countries in reducing their budget deficits, the outlook for fiscal consolidation in the medium term remains weak and uncertain, thereby fueling tensions in the international capital and exchange markets. Ministers, therefore, urged the industrial countries to implement credible policies and pointed out that sustained economic growth cannot be achieved without substantially raising domestic savings in some major industrial countries, which requires that fiscal deficits be sharply abated through the reduction of public consumption. Such credible policies will have a positive impact on exchange rates, long-term interest rates, and on the level of global investment.

5. Ministers welcomed the continuing adjustment efforts carried out by the developing countries and the overall favorable economic outlook anticipated in these countries in the short and medium term. Despite this progress, Ministers noted that sizable disparities persist between various regions or countries. For the countries with less favorable outlooks, Ministers stressed that economic performance, which depends largely on continued economic adjustment and restructuring efforts, is also dependent on improvements in their terms of trade, alleviation of their external debt burden, and adequate external assistance. For most developing countries, Ministers underscored the risks to the outlook associated with sudden reversals of short-term capital flows, the impact of rising international interest rates, and the current volatility of exchange rates for the major currencies.

## **II. Questions Relating to the Functioning of the International Financial System and the Fund's Surveillance Role**

6. Ministers re-examined the dangers posed by the volatility of capital flows not only for the emerging countries, but also for the international financial system as a whole, as shown by the financial crises in Mexico and some other countries. Ministers called for more in-depth discussion of the main characteristics and aims of a new short-term facility -- which should be established as soon as possible -- to assist member countries confronted by sizable outflows of private capital as a result of sudden speculation in capital markets or exogenous factors over which the authorities have little or no influence.

7. Ministers stressed that, in order to enhance the Fund's ability to meet the long-term needs of its members in an environment of increasingly globalized and integrated financial markets, the financial base of the Fund will need to be strengthened with an appropriate increase in quotas. They encouraged the Executive Board of the Fund to accelerate its consideration of the Eleventh Review of Quotas with this purpose in view.

8. Ministers noted, in particular, the various proposals recently discussed by the Executive Board of the Fund aimed at strengthening bilateral and multilateral surveillance in accordance with the institution's mandate. They reiterated the need for intensified and symmetrical surveillance of the policies implemented by industrial and developing countries alike.

9. Ministers noted that the globalization of capital markets and the volatility and persistent misalignment of the exchange rates of the major reserve currencies -- which have an adverse impact on world trade and investment -- are some of the important factors that call for a reform of the international monetary system. In this regard, the Ministers reiterated their proposal made at the last Interim Committee meeting in Madrid, namely, that any evaluation of the functioning of the international monetary system should be made with the participation of the developing countries, along the lines of the Committee of Twenty of the early 1970s, in order to ensure its effectiveness and legitimacy.

10. Ministers noted the recent discussions by the Fund Executive Board on an SDR allocation and the proposals put forward by the Managing Director of the Fund on that subject. Ministers considered that, in addition to the objective of making the SDR the principal reserve asset of the international monetary system, the recent events in capital markets argue in favor of a new SDR allocation. Ministers reiterated their support for the proposal put forward by the Managing Director of the Fund for an allocation of at least SDR 36 billion, and urged industrial countries to support this initiative in a move toward strengthening international cooperation.

11. Ministers took positive note of the proposal recently put forward by the Fund's Managing Director to create a safety net mechanism based on ad hoc SDR allocations to provide the Fund with additional resources to enable it to give sufficient credit to deal with liquidity crisis situations. However, Ministers emphasized that such a mechanism should not replace a general allocation.

### **III. Recent Trends in the Transfer of Real Resources for Development**

12. Ministers expressed their profound disappointment about the decline in the level of official development assistance not only as a percentage of industrial countries' GNP, but also in real terms. They called for an expeditious reversal of this alarming development. In this context, Ministers underlined the increasingly heavy dependence on official assistance of low-income countries and of developing countries whose access to financial markets is still limited. Ministers urged donor countries to increase their official development assistance, in particular to the poorest countries, in accordance with their commitments contained in various U.N. resolutions and with a view toward meeting the internationally agreed target of 0.7 percent of GNP.

13. Ministers regretted the fact that the net resource transfers of the World Bank Group were negative in 1994. In this regard, they urged the World Bank to ensure that the design of conditionality in itself is not a cause of this problem. Ministers noted the critical importance of IDA in the financing of development. In this regard, they encouraged donors to be generous in their support for IDA at this critical juncture, and urged them to contribute to the IDA-11 replenishment at a level substantially higher in real terms than IDA-10.

14. Ministers welcomed the increase in private capital flows to some developing countries in recent years. In this context, Ministers recognized that increased foreign direct investment, as a non-debt creating flow, would play an important role in development in these countries.

### **IV. The Debt Problem**

15. Ministers expressed concern about the unsustainable debt and debt--servicing burden facing a number of developing countries, particularly the low-income and some middle-income countries. They, therefore, welcomed the recent implementation by the Paris Club of the "Naples terms," which constitutes a major step in easing the debt of the poorest countries. Ministers stressed, however, the importance of applying the Naples terms in a flexible manner and moving promptly to the reduction of the stock of debt and to accompany this initiative with new flows of capital to support developing countries' ongoing adjustment efforts. They called on the international community to adopt initiatives to address the debt problem, such as the conversion of debt to finance sustainable development programs in heavily indebted countries.

16. Ministers noted that multilateral debt is accounting for a growing share of the debt stock of some member countries, notably the heavily indebted low-income and middle-income countries, and observed that the servicing of this non-reschedulable debt constitutes a significant burden, which requires an appropriate solution. In this regard, Ministers suggested an examination of ways to strengthen current initiatives, in particular those related to IDA and the Fifth Dimension, which call for broadening the coverage, increasing the resources, and improving the concessionality of these instruments. Ministers noted with interest the recent discussions within the Fund on the establishment of a permanent concessional facility of an ESAF type that would take into account some elements of the U.K. proposal, which could facilitate the treatment of debt vis-à-vis the Fund. Consequently, Ministers strongly appealed to donor countries to support the transformation of the ESAF into a permanent Fund facility.

17. Ministers also urged other multilateral institutions to study and implement new mechanisms for alleviating the debt burden of the heavily indebted low-income and middle-income countries, while noting the need to avoid undermining the financial integrity of such institutions, which depend on the recycling of funds to meet the needs of all their members.

18. Ministers pointed out that commercial debt is a subject of concern for many countries whose access to the international capital markets remains limited. They welcomed the extension and strengthening of the IDA-only debt-reduction facility. However, they observed that, in many cases, the amount allocated to the eligible country is insufficient in view of the volume of the debt.

19. Ministers called on the World Bank and the Fund to study under the existing facilities, or to put in place, special mechanisms likely to support heavily indebted low-income and middle-income countries that seek to restructure their commercial debt.

## **V. The World Summit on Social Development**

20. Ministers commended the authorities of international financial institutions for giving increasing attention to social problems as a key component to be taken into account at the time when structural adjustment programs are agreed. To this end, Ministers considered that the UN World Summit on Social Development in Copenhagen, Denmark, was an important step toward looking for practical solutions and a more cooperative world environment.

## **VI. Infrastructure Financing in the Developing Countries**

21. Ministers urged the international community to contribute to the financing of infrastructure in the developing countries, in view of the critical importance of infrastructure in development and its large investment requirements. Ministers noted that, although the public sector has been traditionally the main source of finance for basic infrastructure in the developing countries, budgetary constraints and the multiplicity of development objectives have made it essential to tap private sources as well. Ministers urged the multilateral institutions, in particular the World Bank Group, to take new initiatives concerning the financing of infrastructure, including that required by the private sector. In this context, they called on the World Bank Group to strengthen its role in the promotion and use of the financial mechanisms and instruments issued on and subscribed in developing country markets and to devise means of lengthening maturities and improving the terms of financing for infrastructure projects, which have long gestation periods.

22. Ministers also considered that the creation of an environment conducive to private sector participation, the involvement of all the parties concerned -- central governments, users, and local authorities -- and the adoption of new technologies continues to be essential. This is likely to contribute to improving the quality of and the return on infrastructure in the developing countries. In this regard, they recommended that each country follow a management approach that is best suited to its own circumstances.

## **VII. Regional Issue: Adjustment and Growth in sub-Saharan African Countries**

23. Ministers noted the meeting of the G-24 Technical Group in Abidjan, Ivory Coast, on February 13 and 14, 1995, which included discussions on adjustment and growth in the countries of sub-Saharan Africa. They expressed particular concern about the continuing global decline in per capita incomes -- of 0.5 percent annually between 1986 and 1994 -- the growing size of domestic and external imbalances, as well as the heavy debt burden of these countries. They recognized that several factors have contributed to this situation, notably the continuing deterioration in the terms of trade of these countries, whose economic structure makes them vulnerable to fluctuations in the prices of their export commodities; the inadequacy of basic economic infrastructures; and the political liberalization under way, which has necessitated building national consensus in support of reform, and accordingly slowed the adjustment process in many cases, in the context of rising expectations.

24. Ministers noted, however, that those factors should not mask the major efforts being made by several countries to stabilize their economies and put them back on the path of sustainable growth. In this regard, they noted that the general adjustment strategy they have been following for a number of years with the support of the Bretton Woods institutions, in particular through the Fund's structural adjustment facility (SAF) and enhanced structural adjustment facility (ESAF), and the Bank's Special Program for Africa (SPA) remains valid. In examining recent studies prepared by the two institutions, Ministers found a need to consider joint evaluations of programs on the basis of common criteria in countries where both were operating, and preferably to arrange for their independent evaluation. In that regard, Ministers stressed the need, in judging the success of adjustment programs, to take into account the overall results achieved, as well as the indicators and performance criteria agreed. They emphasized the importance of strengthening institutional capacities for programs to be truly national in design and ownership. They noted a need for a better sequencing of measures to be implemented, and to ensure that efforts were

focused on economic diversification so as to make them less vulnerable to erratic fluctuations in the terms of trade and increased investment in basic social and physical infrastructure.