INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

Communiqué

October 7, 1995

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs held their Fifty-Third Meeting in Washington, D.C., on October 7, 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. Quzi Alimullah 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. James Wolfensohn, President, World Bank, Mr. Mohamed Kabbaj, Chairman, Development Committee, Mr. Roger Lawrence, Deputy to the Secretary General, UNCTAD, Mr. G. K. Helleiner, G-24 Research Coordinator, Mr. Jean Claude Milleron, Under Secretary General, United Nations, Mr. Y. Seyyid Abdulai, Director-General, OPEC Fund for International Development, Mr. Aburahman N. Hersi, Islamic Development Bank, Ms. Manuela de Rangel, Latin American Economic System, Mr. Jin Linquin, People's Republic of China, Mr. Abdeltif Loudyi, Morocco, and Mr. Abdelaziz N. Alorayer, Saudi Arabia.

The meeting of the Ministers was preceded on October 6. 1995 by the Sixty-Sixth Meeting of the Deputies of the Group of Twenty-Four, with Mr. Tiemoko Kone of Ivory Coast as Chairman, Mr. Aziz Ali 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. While noting the satisfactory performance of the world economy and the generally prudent macroeconomic policies of industrial countries, Ministers stressed the need to strengthen the fiscal policy stance and to pursue structural reforms in some major countries in order to reduce substantially their existing deficits, thereby fostering stability in capital and exchange markets, raising global savings, and enhancing support for official development assistance.

2. Ministers noted that the continued efforts of developing countries to liberalize and develop their economies had contributed to world economic growth and international trade expansion. Those efforts need to be fully supported by the international community, particularly by the multilateral financial institutions, to help the developing countries benefit from the results of the Uruguay Round and in order to offset any adverse effects resulting from a loss of preferential access, higher costs of providing intellectual property protection and paying for imparted technology, and a rise in the cost of food for net food-importing developing countries. Ministers called on multilateral financial institutions to explore specific measures and mechanisms toward that end.

3. Ministers reviewed the phenomenon of increasing globalization and integration of international financial markets. They noted that, although this phenomenon has encouraged a

better allocation of international savings and stimulated investment and growth in a number of countries, it posed new challenges for the international monetary and financial system, owing to increased volatility in exchange and capital markets. They stressed the need for industrial countries and international financial institutions to cooperate on containing such volatility. Ministers also emphasized that the process of developing countries' integration into global capital markets should not be accelerated beyond the absorptive capacity of their domestic financial systems and that prescriptions for capital account liberalization should fully take into account an appropriate sequencing of reform measures.

4. Ministers endorsed in principle the procedures recently established at the IMF to strengthen its surveillance role, especially those which will allow the IMF to obtain more reliable and timely statistics from member countries. They underscored that the establishment of standards for the provision of adequate data to the Fund could be complete only over time in countries with less developed statistical systems and that Fund technical assistance would be crucial.

II. IMF Resources and Financial Assistance

5. Ministers noted that the high volatility of capital inherent in a globalized world economy called for a strengthening of the Fund's financial resources, and they stressed that the central role of the IMF cannot be fully effective unless the institution has adequate resources at its disposal. They expressed concern that the IMF's current liquidity position could decline considerably over the next two years in view of member countries' growing financing needs.

6. Ministers were of the view that the Fund should continue to rely primarily on its quota-based resources. They urged the Fund to expedite the Eleventh General Review of Quotas with the aim of doubling quotas as recommended by the management of the Fund. Ministers emphasized the importance of a proper balance among country groups and the need to maintain existing regional representation in the Fund.

7. While noting the recent discussions on the enlargement of the General Arrangements to Borrow, Ministers stressed that additional borrowing arrangements -- including the Managing Director's proposal for establishing supplementary lines of credit -- while warranted as transitional measures, should not be a substitute for an increase in quotas.

8. Ministers regretted the lack of progress on a new SDR allocation. They maintained support for the principle of a general SDR allocation under the Fund's existing Articles of Agreement. They expressed concern about the fact that no consensus on this issue had yet been reached, owing to the major differences between the developing countries and some of the industrial countries. Ministers cautioned that the proposed comprehensive review of the role and functions of the SDR should not delay agreement on an SDR allocation.

9. Ministers welcomed the broad consensus on the conversion of the enhanced structural adjustment facility (ESAF) into a permanent Fund facility, but regretted that there were still difficulties related to the methods of financing the ESAF during the interim period.

10. Ministers considered that, among the schemes for financing the subsidy element of the resources of an interim ESAF, the option of selling a portion of the Fund's gold holdings can be considered in order to supplement financing from bilateral sources. This option would be consistent with the Fund's objectives with regard to financial assistance to member countries and would not impair its financial base.

11. Ministers welcomed the efforts to adapt the Fund to the new world environment, particularly those aimed at establishing an appropriate mechanism to assist member countries in coping with exceptional crises resulting from sudden and unanticipated shifts in capital flows. In that connection, Ministers took note of the recent discussions of the Fund's Executive Board on the procedures and modalities concerning access to that mechanism, and considered those proposed procedures and modalities to be broadly appropriate. While the mechanism was meant to deal with exceptional situations, Ministers felt that it should be invoked to forestall or contain significant damage to any member country facing problems arising from capital volatility and not be restricted to those situations having systemic effects. It was also agreed that any mechanism for financing higher than traditional levels of access should ensure that it did not crowd out regular access by other members.

III. The Debt Problem

12. Ministers noted that, despite the successive debt reschedulings and debt cancellations that had taken place over recent years on a case-by-case basis, the debt burden had continued to grow for a significant number of developing countries.

13. Ministers welcomed the recent initiatives of the Paris Club to relieve the debt of low-income countries, in particular the implementation of the Naples terms. However, Ministers noted that, for many of those countries, the prospects for external viability would remain very limited in the absence of a more comprehensive approach to their debt problem. Accordingly, Ministers considered that an appropriate approach should combine major reductions in the stock of debt with the provision of additional concessional financial assistance.

14. Ministers reiterated their concerns about the unsustainable level of multilateral debt service for a number of low-income and some lower-middle- income countries and its growing share of the overall outstanding debt. In that regard, Ministers were pleased to note that a task force in the World Bank was studying the modalities of a broad-based approach to the problem of multilateral debt. Ministers urged the World Bank and the Fund to analyze possible mechanisms that would significantly alleviate the burden of multilateral debt on the countries concerned.

15. Ministers noted that commercial debt was a matter of concern for a number of countries, owing to both the debt stock and debt service. Regarding the low-income countries, Ministers welcomed the fact that the World Bank Group has maintained and strengthened the IDA Debt Reduction Facility. Ministers called on the Bank and the Fund, in the context of their existing facilities and in conjunction with bilateral donors and lenders, to study mechanisms to support the restructuring of the commercial debt of the severely indebted low- and lower-middle-income countries that have implemented economic adjustment programs.

IV. Status of the Transfer of Real Resources for Development

16. Ministers examined the report prepared by the World Bank staff on transfers of real resources to the developing countries. This report shows that, although there was a sizable increase in transfers of real resources to developing countries as a group in 1991-93, real aggregate long-term flows fell in 1994 and are likely to decrease even further in 1995. In addition, the increases recorded in 1991-93 were unevenly distributed across regions. Sub-Saharan Africa and South Asia, which have the largest concentration of the poorest countries in the world, for instance, experienced a decrease in net long-term flows. Consequently, while Ministers acknowledged the importance of developing countries creating the conditions needed to attract foreign private investment, they called on the international community to support the adjustment efforts of these countries through the transfer of resources to developing countries generally, and to the disadvantaged areas of sub-Saharan Africa and South Asia in particular.

17. Ministers noted with concern that OECD countries' official development assistance has declined to 0.32 percent of their GNP in 1994, the lowest level in the last ten years. They once again called on Industrial countries to substantially increase their official development assistance to the internationally agreed target of 0.7 percent of GNP.

18. Ministers deplored the fact that many international mechanisms to support low-income developing countries, notably IDA, were confronting serious obstacles in certain major industrial countries. They expressed serious concern about the difficulties of financing IDA-10 and the prospects of a substantial reduction of resources for IDA-11. Ministers also emphasized the fact that failure to replenish IDA adequately would result in an even larger negative net real transfer of resources from the World Bank Group to the severe detriment of the poorest members of the international community.

19. In light of the key role played by the United States in IDA financing mechanisms and the implications of its decisions for overall IDA financing, Ministers urged the U.S. Congress to reconsider the magnitude of U.S. contributions to IDA-10 in order to attain the level originally committed. Such reconsideration should take into account not only the enlightened long--term self-interest of donor countries, but also the moral and social issues involved.

20. Ministers expressed serious concern that net resource transfers from the World Bank Group to an increasing number of developing countries are negative, aggravating their balance of payments difficulties. They urged the World Bank to reverse this trend, particularly in those cases where it is associated with unduly constraining lending procedures and conditionality. They called on the Bank to re-examine its lending practices and to mobilize more resources in support of countries' development efforts.

V. Implications of the Social Summit

21. Ministers took note of the report on the implications for the World Bank and the Fund of the social summit, which is intended to serve as the basis for discussions at the forthcoming meeting of the Development Committee. This report emphasizes, inter alia, the role of public expenditure in reducing poverty. It notes that the establishment of a link between public expenditure policies

and the reduction of poverty has major implications for borrowing governments and for the World Bank and the Fund.

22. In accordance with the action program of the World Summit for Social Development, Ministers stressed the need for governments to allocate a larger portion of their national resources to poverty alleviation. Ministers called on the multilateral institutions to provide developing countries with adequate financing to enable them to support active and expanded social development programs.

23. Ministers called for a comprehensive discussion of the terms of reference of public expenditure reviews, and cautioned that such reviews should not lead to additional conditionalities and should not draw the Bretton Woods institutions into making value judgments on delicate and complex issues that do not fall within their mandates. Ministers emphasized that countries' commitment to anti-poverty programs is based on their own sense of ownership of such programs.

VI. Assessment of the Functioning of the International Monetary and Financial System

24. With regard to the Halifax communiqué on this subject, Ministers reiterated the position taken in the G-24 Resolution adopted in Madrid in October 1994, and reaffirmed in April 1995 in Washington, that any assessment of the functioning of the international monetary and financial system must be made with the full and substantive participation of the developing countries. Accordingly, Ministers emphasized the importance of the involvement of the developing countries in any discussion on the reform of international financial institutions along the lines of the Committee of Twenty.