INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

Communiqué

September 28, 1996

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs held their fifty-fifth Meeting in Washington, D.C., on September 28, 1996. Mr. Qazi Alimullah, Deputy Chairman of the Planning Commission of Pakistan, was in the Chair, with Mr. Antonio Casas-González of Venezuela as First Vice-Chairman, and Mr. Ali Hamdi of Algeria as Second Vice-Chairman. The meeting was attended by Mr. Michel Camdessus, Managing Director, International Monetary Fund, Mr. James Wolfensohn, President, World Bank, Mr. Mohammed Kabbaj, Chairman, Development Committee, Mr. R. Ricupero, Secretary General, United Nations Conference on Trade and Development, Mr. G. K. Helleiner, G-24 Research Coordinator, Mr. Y. Seyyid Abdulai, Director-General, OPEC Fund for International Development, Mr. Ahmad M. Ali, Islamic Development Bank, Mr. Gerardo Orlando Noto, Latin American Economic System, Mr. Isaac Cohen, Economic Commission for Latin America and the Caribbean, Mr. Zhou Xlaochuan, People's Republic of China, Mr. S. Fouad, Morocco, and Mr. Abdelaziz N. Alorayer, Saudi Arabia.

The meeting of the Ministers was preceded on September 27, 1996 by the sixty-eighth meeting of the Deputies of the Group of Twenty-Four, with Mr. Aziz Ali Mohammed of Pakistan as Chairman, Mr. William Larralde of Venezuela as First Vice-Chairman, and Mr. Tayeb Boumerfeg of Algeria as Second Vice-Chairman.

I. World Economic Outlook

1 Ministers noted that global prospects were encouraging, with growth and price stability in the industrial countries outside Europe, robust growth in many of the developing countries in Asia, and recovery in the Western Hemisphere and Africa. They noted that there were substantial downside risks to the global expansion and that the external environment for developing countries appeared less favorable than had been anticipated at their previous meeting. They called on the industrial countries to take into consideration their responsibility to provide growing markets for developing countries' exports. Long-term interest rates remained high in real terms in international capital markets, pointing to the need for further progress in fiscal consolidation in major industrial countries. At the same time, in view of the deflationary fiscal policies required to meet the Maastricht Treaty's convergence criteria, there was a need for more flexible monetary policies. There was also a need to address the unemployment problems in Europe, which were due to labor market rigidities and other structural constraints, but which were often wrongly attributed to greater openness in the global trading environment and generated calls for protectionism. These protectionist pressures were particularly egregious when disguised under calls for environmental security, human rights, or higher labor standards in developing countries.

2. Ministers stressed that growth rates were still low in many developing countries. Given the long periods of low or negative per capita-income growth rates in many African countries, it was imperative that more determined efforts be made to achieve high growth throughout the continent. Ministers called for a more supportive response by the international community to the bold and far-reaching adjustment programs being implemented under difficult circumstances in Africa and other parts of the developing world. The design of adjustment programs and their associated conditionalities should emphasize the growth imperative and provide an adequate social safety net.

II. Surveillance

3. Ministers noted that the financial policies of the major industrial countries determine to a large extent the stability of international capital markets, and that a lack of balance in macroeconomic policies and insufficient policy coordination can result in sharp fluctuations in interest rates and exchange rates. When interest rates in major industrial countries rise, capital flows to developing countries tend to decline, and might even be reversed, resulting in disruptions for developing countries. Moreover, instability in interest rates and exchange rates among the industrial countries impose costs on developing countries, owing to their limited opportunities to hedge against movements in these rates. In noting these aspects, Ministers stressed the need to strengthen Fund surveillance over industrial countries.

4. Ministers welcomed the launching of the Special Data Dissemination Standard (SDDS) and viewed it as a positive step in enhancing global economic transparency. They noted that the SDDS should focus on those countries that have the greatest impact on the international economic environment, namely the industrial countries and some large emerging market economies. Many developing countries would need time and considerable technical assistance from the Fund to be in a position to subscribe to the SDDS.

III. Fund's Financial Resources

5. In a spirit of solidarity, Ministers were prepared to support a one-time move to equalize the ratio of cumulative SDR allocations to present quotas, while insisting that the provisions for general allocations under the Articles remained relevant under current circumstances. Recalling the proposals made by them at the 1994 Annual Meetings, Ministers regarded the Managing Director's suggestion for a benchmark ratio of 33 percent of quotas as a minimum figure for providing a modest contribution to meeting world liquidity needs. Ministers considered it essential to set a deadline of two years for an amendment of the Articles, and if the process of legislative approvals were not completed by then, they proposed that the Fund membership be prepared to reconsider the need for a general allocation under the existing Articles to help move the SDR system at least part of the way to meeting the accepted need for equity.

6. Ministers stressed the need for the Fund to have adequate resources to meet its increasing responsibilities. Noting the projected decline in the liquidity ratio to its lowest level since 1983 -- and in the context of globalized financial markets --Ministers called for an early completion of work on the Eleventh General Review of Quotas. Ministers reiterated the need for a doubling of quotas, and stressed that an increase in quotas should be predominantly equiproportional.

7. Ministers were concerned about the relative decline in the quota share of developing countries, and they underlined the importance of maintaining the existing balance in the representation of members and regions in the Executive Board. Ministers noted that a review of the number of basic votes was overdue.

8. Ministers noted the progress made on the Fund's borrowing arrangements, but emphasized that the establishment of the New Arrangements to Borrow should not be regarded as a substitute for a quota increase.

9. Ministers reiterated their opposition to attempts to raise charges on the use of Fund resources, either as a means of strengthening the institution's financial position or for any other purpose. They stressed that this measure would be inconsistent with the cooperative character of the Fund.

IV. Enhanced Structural Adjustment Facility (ESAF)

10. Ministers noted progress made on issues relating to the financing of the ESAF during the interim period and looked forward to its timely finalization. Ministers were convinced that an appropriate division between bilateral and multilateral sources of funding remained critical to a successful outcome. Several developing countries had indicated their willingness to contribute to subsidizing the use of the General Resources Account or other loan resources, but stressed that burden sharing by the industrial countries should be equitable. In order to meet the remaining subsidy requirements, the Ministers supported Fund gold sales, along the lines proposed by the Managing Director.

V. Heavily Indebted Poor Countries Initiative (HIPC Initiative)

l1. Ministers welcomed the progress made by the Bretton Woods institutions in the joint initiative for the heavily indebted poor countries, but were deeply concerned at the tendency among major bilateral donors and creditors to curtail their own contributions, while pressing the multilateral institutions to assume a greater share of the burden. Welcoming the leading role of the World Bank in funding the HIPC Initiative and its initial contribution of US$500 million, Ministers urged all other creditors to take the necessary steps to finalize their funding arrangements by the end of the year. They urged the Paris Club to provide up to 90 percent reduction of debt stock on a net present value basis. Ministers encouraged the IMF to mobilize promptly its contribution to the Initiative. They stressed that the application of the framework for resolving the debt problems of the HIPCs with respect to eligibility criteria, timetables, and the scale of relief should be handled with a high degree of flexibility. In particular, they emphasized that the debt burden on public finances should be accorded the same weight as the traditional balance-of-payments criteria in the evaluation of debt sustainability. Ministers found it crucial that debtor governments be assured full participation in all the analyses and reviews to be carried out by the Bretton Woods institutions over the adjustment periods. Furthermore, those periods should be shortened for countries that had already built up a good track record.

VI. International Development Association (IDA)

12. Ministers reiterated their deep concern that IDA-11 donor contributions were not adequate to support even current levels of lending. Moreover, several IDA-eligible countries that were inactive at present might need IDA support in the coming period, thereby exacerbating the problem of inadequate funding. Ministers urged the Development Committee to work toward modalities that provide for adequate long-term financing for IDA.

VII. Official Development Assistance (ODA)

13. While private capital flows to developing countries have attained high levels, they have been directed to a small number of emerging market economies, and the need for ODA remains pressing for a large number of countries whose access to private capital remains uncertain. Ministers noted that the OECD countries' official development assistance had declined to 0.27 percent of GNP in 1995, its lowest level in over a decade. They reiterated their call to industrial countries to increase substantially their ODA to the internationally agreed target of 0.7 percent of GNP.

VIII. Multilateral Investment Guarantee Agency (MIGA)

14. Ministers welcomed the important contributions made by MIGA in promoting foreign investment in member countries, but were concerned that MIGA was running out of resources to cover the increasing demand for its guarantees. Ministers emphasized that, unless MIGA's capital base was augmented urgently, its catalytic role in mobilizing private capital flows would be seriously curtailed.

IX. Partnership for Capacity Building in Africa

15. Ministers welcomed progress made in the Partnership for Capacity Building in Africa Initiative under the continued leadership of the African ministers. As outlined in the proposal by a group of African ministers for an African-led and -owned program of action, the Bank should continue its supportive and coordinating role among donors.

X. Post-Conflict Development

16. Ministers welcomed the leading coordinating role being played by the Bank in moving post-conflict areas from emergency financing to funding development projects, but noted that progress on disbursement has been slow and much more needed to be done in a nondiscriminatory manner. There remains an urgent need for a further increase in financial resources earmarked for the post-conflict situations to expedite project implementation and disbursement to adequately meet the development challenges in Bosnia and Herzegovina, the West Bank and Gaza Strip, Lebanon, and other countries engaged in post-conflict reconstruction.

XI. World Trade Organization (WTO)

17. In welcoming the participation of the Director-General of the World Trade Organization in the deliberations of the Interim and Development Committees, Ministers encouraged the WTO to pursue cooperation agreements with the Bretton Woods institutions to help developing countries

take part in a fast-globalizing economy, Ministers urged that the Marrakesh decision on measures in favor of least-developed and net food-importing developing countries be fully implemented, especially the provisions for food aid. Looking beyond, Ministers urged an acceleration in the implementation of market-access measures for developing country exports. Ministers emphasized the need to strengthen WTO technical assistance programs in trade and trade-related areas, especially through the use of new technologies. Ministers cautioned that coordination between the WTO and other multilateral organizations should not result in commercial considerations assuming primacy over developmental objectives. Ministers stressed that application of unilateral trade restrictions on political grounds ran counter to the spirit underlying the WTO framework.

XII. Conditionality

18. While reiterating their commitment to the principles of good governance, Ministers stressed that, in accordance with their charters, the Bretton Woods institutions should proceed with extreme caution in the application of conditionalities in the governance area. They emphasized that the international financial institutions should augment their technical support for the indigenous efforts of the developing countries aimed at improving efficiency and accountability in state institutions.