

**Intergovernmental Group of Twenty-Four  
on International Monetary Affairs**

**Communiqué**

**April 27, 1997**

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs held their fifty-sixth meeting in Washington, D.C., on April 27, 1997. Mr. Antonio Casas González, President of the Central Bank of Venezuela, was in the chair, with Mr. Abdelkrim Harchaoui of Algeria as First Vice-Chairman, and Mr. G.L. Peiris of Sri Lanka 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. Daudi N. Mwakawago, Chairman of the Group of 77; Mr. Nitin Desai, Under-Secretary-General, United Nations; Mr. Carlos Fortin, Deputy-Secretary-General, UNCTAD; Mr. G.K. Helleiner, G-24 Research Coordinator; Mr. Y. Seyyid Abdulai, Director-General, OPEC Fund for International Development; Mr. Stefan Balabanoff, OPEC; Mrs. Manuela Tortora de Rangel, Latin American Economic System; Ms. Ines Bustillo, Economic Commission for Latin America and the Caribbean; Mr. Enam A. Chaudhury, Islamic Development Bank; Mr. Manuel F. Fontecha, Central American Monetary Council; Mr. Liu Jibin, People's Republic of China; Mr. Mohamed Seqat, Morocco; Mr. Hamad Al-Sayari, Saudi Arabia; and Mr. Trevor Manuel, South Africa.

The meeting of the Ministers was preceded on April 26, 1997 by the sixty-ninth meeting of the Deputies of the Group of Twenty-Four, with Mr. William Larralde of Venezuela as Chairman, Mr. Hadji Babaammi of Algeria as First Vice-Chairman, and Mr. Lal Jayawardena of Sri Lanka as Second Vice-Chairman.

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**I. World Economic Outlook and Globalization**

1. Ministers noted that the world economy continues to grow at a steady pace with low inflation. For the fifth year in a row, the developing countries have led in the contributions to world economic growth. While overall prospects appear positive, the current improvement in sub-Saharan Africa must be viewed with caution, in the light of the projected decline in nonfuel commodity prices, shrinking official development assistance (ODA), the relatively low level of foreign direct investment, and the debt overhang. Among the advanced economies, the United States and the United Kingdom continue to perform strongly, although the risk of inflationary pressures has led to pre-emptive monetary tightening; this, however, should not be pushed to the point at which it will lead to higher international interest rates that constrain investment and growth. The simultaneous pursuit of fiscal consolidation in the run-up to economic and monetary union (EMU) in a number of European countries and the withdrawal of fiscal stimulus in Japan are placing at risk the growth momentum in large parts of the industrial world, with significant

spillover effects on developing country exports and growth. Ministers, therefore, urged these countries to calibrate their macroeconomic policies toward a sustainable growth-oriented stance.

2. Ministers recognized that globalization brings both opportunities and risks; presently, it appears that these are unevenly distributed because of imperfections in factor and product markets. A more equitable distribution of benefits and mitigation of risks require careful management of public policies and coordination of national policies dealing with markets, as well as stronger international support for improvements in infrastructure and human resources in developing countries.

3. The consequences of introducing the single currency as a result of EMU are bound to be far-reaching for the international monetary system. There is therefore an urgent need for the IMF to exercise leadership to ensure that the transition to a tripolar currency system proceeds with much closer international coordination to minimize instability in the exchange and capital markets and to enhance the prospects for global prosperity. There are major implications of EMU for Fund surveillance, and it is important to ensure that the current, undesirable asymmetries in the application of surveillance are not further intensified by the advent of EMU.

## **II. HIPC Initiative and ESAF**

4. Ministers acknowledged the progress made in establishing the HIPC Initiative, and urged that its application be expedited. While recognizing the broadening of the eligibility criteria, they emphasized that the terms of the Initiative should be made more flexible to enable more of the indebted countries to reach debt sustainability as early as possible. Moreover, the time frames involved in getting countries to the decision and completion points need to be shortened and conditionality made more realistic, particularly for those that have already established strong performance track records, as prolonged delays in dealing with the debt overhang will undermine the effectiveness of the Initiative, endanger the sustainability of adjustment efforts, and erode domestic political support. Ministers underscored the need to ensure the maintenance of adequate concessional resources to the HIPC beneficiary countries. They also called for equitable burden-sharing arrangements among creditors that take into consideration the financial integrity of the multilateral financial institutions.

5. Ministers called for an early agreement on the financing of the interim ESAF and the special ESAF operations under the HIPC Initiative. They noted that bilateral commitments to date remain inadequate, and they urged bilateral contributors to provide enough financial resources in the context of equitable burden sharing among all Fund members, in order to remove pressures that limit the eligibility for, and scope of, debt relief. Ministers considered the sale of a portion of the Fund's gold holdings as a valuable supplement to bilateral contributions.

## **III. Capital Account Liberalization**

6. Ministers welcomed the recent work undertaken by the Fund in the area of capital account liberalization and recognized the benefits that accrue from liberalizing capital account transactions. They recognized that, among international organizations, the Fund should play the leading role in promoting such liberalization, while ensuring adequate coordination with

multilateral and regional integration arrangements. They underscored the importance of reaching consensus on a wide variety of issues prior to the consideration of a possible amendment of the Articles of Agreement. These include, inter alia, a clear and workable definition of capital account transactions to be covered under such an amendment; the advantages of permanent price-based controls; the consideration of restrictions introduced for prudential reasons; the need for flexibility to re-impose restrictions under specific circumstances; and the confidence that IMF assistance would be available to members facing volatile capital flows. Furthermore, Ministers recalled that several conditions need to be in place to ensure the success of liberalization, including a sustainable macroeconomic framework, well-capitalized banking institutions, and clearly defined legal and institutional arrangements.

#### **IV. Financial Sector Issues**

7. Ministers noted that, in an environment of globalized financial markets, it is becoming increasingly important to promote and maintain sound banking systems. They urged multilateral institutions to provide adequate technical assistance to help members to strengthen regulatory and supervisory systems and to enhance the transparency of financial markets, as well as to provide financial support to assist in the restructuring of financial sectors. Ministers recognized the efforts being made by the Basle Committee on Banking Supervision and the IMF on the development of appropriate guidelines and standards. They stressed that the developing countries should participate fully in the deliberations and decisions on international supervisory issues.

#### **V. Governance**

8. Ministers noted that the principles of good governance of nations include transparency, accountability, and the rule of law. They stressed that the intergovernmental financial institutions, in following these principles in their own operations, should adhere strictly to the mandates embodied in their respective Articles of Agreement. In addition, they called for the fuller participation of developing countries in the decision-making process of the institutions, as well as in their management and staffing patterns.

#### **VI. Resource Flows to Developing Countries**

9. Ministers stressed that, although flows of private resources to less developed countries are expanding, they continue to be channeled to only a few developing countries. Furthermore, ODA is showing a disturbing downward trend, and 1996 saw the lowest level of ODA in over a decade. Stressing the critical role of such assistance for the poorest countries, they emphasized that private capital flows are no substitute for official flows for facilitating growth and alleviating poverty in these countries. The absence of adequate ODA flows would inhibit recipient countries from contributing to global prosperity and would exacerbate migratory pressures on countries with better prospects. Ministers reiterated their deep concern that IDA-11 donor contributions are not adequate to support even current levels of lending, and urged the Development Committee to work toward modalities that provide for adequate long-term financing for IDA.

#### **VII. SDRs**

10. Ministers welcomed the agreement reached on the draft outline of the amendment on the special SDR allocation, which safeguards the principles of separation of the General and SDR Departments, the SDR as a reserve asset, and the provisions regarding unconditional SDR allocations to all members on the basis of a long-term global need. Ministers urged an early agreement on the Managing Director's current proposal for a special allocation of a minimum of SDR 22.4 billion.

### **VIII. Fund's Financial Resources**

11. Ministers urged the Fund to expedite efforts to reach agreement on the IMF's Eleventh General Review of Quotas, leading to a substantial increase in quotas, as a major step in strengthening the increasingly important role that the Fund must play within the international monetary system. 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. They stressed that the distribution of the Eleventh Quota increase should be predominantly equiproportional. Ministers noted that a review of the number of basic votes was long overdue.

12. Ministers emphasized that, in view of the large accumulation of reserves and precautionary balances in the Fund, the net income target should be reduced so as to bring down the rate of charges.

### **IX. General Data Dissemination System**

13. Ministers recognized the efforts being made to reach agreement on the General Data Dissemination System (GDDS), noting the pragmatic and flexible elements of the system whereby countries can assume the commitment to participate voluntarily. Ministers emphasized the need for developing countries to receive adequate and timely technical assistance to facilitate their early participation in the GDDS.

### **X. Technical Assistance for Capacity Building in Africa**

14. Ministers welcomed the progress made in the Partnership for Capacity Building in Africa Initiative and endorsed the main recommendations made by the African Governors, in particular the need to set up a Trust Fund for Capacity Building and to mainstream capacity building within the World Bank's operational procedures. Ministers urged the Bank to continue its supportive role and coordinating efforts among donors in implementing the proposed Action Plan.

### **XI. BWIs and WTO Relations**

15. In welcoming the recent cooperation agreements between the BWIs and the World Trade Organization (WTO), Ministers stressed that this cooperation should further the process of integrating developing countries into the global economy. Ministers called for an early implementation of market access measures for developing country exports, strengthened WTO technical assistance programs, and the full implementation of the Marrakesh decisions. They also

stressed that application of unilateral trade restrictions on political and environmental grounds runs counter to the WTO framework.

## **XII. MIGA**

16. Ministers were concerned about the slow progress in finding a long-term solution to the resource constraints of MIGA, and urged the international community to give urgent attention to this critical issue in view of its constraining impact on beneficiary countries.

## **XIII. Strategic Compact**

17. Ministers welcomed the adoption of the Strategic Compact for the World Bank. While recognizing the need for efficiency and cost effectiveness, they welcomed the Compact's undertaking to increase the Bank's front-line services. They called for the continuation and enhancement of nonlending services to developing countries without the imposition of additional charges. Moreover, care must be taken to ensure that the Bank's borrowers are not adversely affected by an increase in interest margins or charges.

## **XIV. Date of Next Meeting**

18. The G-24 Ministers will meet again in Hong Kong, China, on September 20, 1997.