Intergovernmental Group of Twenty-Four on International Monetary Affairs

Communiqué

September 20, 1997

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs held their fifty-seventh meeting in Hong Kong, China, on September 20, 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. Driss Jettou, Chairman, Development Committee; Mr. Rubens Ricupero, Secretary-General, UNCTAD; Mr. Aziz Ali Mohammed, G-24 Liaison Office; Mr. G. K. Helleiner, G-24 Research Coordinator; Mr.Y. Seyyid Abdulai, Director-General, OPEC Fund for International Development; Mr. Abdurahman N. Hersi, Islamic Development Bank; Ms. Katherine Hagen, Deputy Director-General, International Labor Organization; Mr. Liu Jibin, People's Republic of China; Mr. Abdulaziz M. Al-Turki, Saudi Arabia; and Mr. Christian Stals, South Africa.

The meeting of the Ministers was preceded on September 19, 1997 by the seventieth 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 Economy and Monetary System

1. Developments in recent years confirm the leading role assumed by the developing world in the growth of the global economy and its significant input to the expansion of world trade. This increasing contribution reflects the stabilization and reform efforts that many countries have pursued in order to maintain sustainable growth with price stability. Ministers consider that this trend of faster growth of the developing world, relative to the industrial countries, should be appropriately reflected in the decision-making processes of the Bretton Woods Institutions (BWIs).

2. Growth prospects in Asia are being affected by the adverse shock to the dynamic South-East Asian region resulting from the recent turmoil in financial markets and by the effects of this turmoil on Japan's recovery, given that this region provides large markets for Japan's exports and capital. While recognizing that domestic policy weaknesscontributed to this crisis, Ministers emphasize the need to acknowledge the role of speculative activities and other factors in the external environment that provided the backdrop against which the financial crisis spread, through contagion effects, to a number of countries both within and outside the region, including those with sound macroeconomic fundamentals. Ministers underline the need to explore the interplay of domestic and external factors in the onset and containment of crises.

3. Ministers welcome the timely response of the Fund to the immediate problem in South-East Asia and the substantial support package mobilized by Thailand's neighboring countries as a demonstration of regional solidarity. The Emergency Financing Mechanism, established in the wake of the Mexican crisis, was activated to contain the crisis and underscores the need to set up complementary and coordinating mechanisms within the World Bank Group and regional institutions to expedite the processes for the provision of financial support. Ministers consider this essential to deal with the need to buttress and impart confidence in domestic financial systems, and banking sectors in particular, that are exposed to the volatility of markets.

4. Recognizing the potentially adverse impact of large fluctuations among the major international currencies on developing countries, Ministers consider it imperative that the Fund fully exercise its powers to ensure effective surveillance over the macroeconomic policies of the countries involved in the management of these currencies. They believe that, in the perspective of an emerging tripolar system, the issue of reform of the international monetary system should be brought forward on the agenda of the world community.

II. Capital Account Liberalization

5. While recognizing the benefits for the world economy of greater freedom of capital movements, Ministers emphasize that the capital account liberalization process could put additional stress on the economies that are already straining to adjust to globalization. Ministers agree that, in particular circumstances, precautionary and price-based measures could help countries protect economic stability and sound macroeconomic management.

6. Ministers agree to support further work on the orderly liberalization of capital movements as a prelude to any amendment of the Fund's Articles. They emphasize the need for a progressive and flexible approach, even under any transitional arrangements, to enable members to adjust the pace and sequencing of the liberalization of their capital account, in light of their policy, institutional, and financial conditions. While reiterating that the Fund should play the leading role among international organizations in promoting capital account liberalization, Ministers call attention to the need for the Fund to avoid institutional overstretch, as well as duplication and potential conflicts with other relevant agencies and agreements. They also emphasize the need for adequate technical assistance and financing assurances to help countries to move toward capital account convertibility. In addition, they stress that: a) the liberalization of the capital account should not be made a condition for the use of Fund resources; b) restrictions arising from measures taken by members for prudential and financial market development purposes should benefit from flexible approval policies; and c) the treatment of foreign direct investment and restrictions for security reasons should be outside Fund jurisdiction.

III. Governance

7. Ministers reiterate their commitment to the principles of good governance—which include transparency, accountability, and the rule of law. While noting the recent efforts of the Fund and the World Bank to clarify their potential roles within their respective mandates in the strengthening of governance and reduction of corruption at the national and international levels, they re-emphasize the need to avoid the application of conditionalities based upon subjective

judgments in these areas and to ensure uniformity of treatment of members based on objective criteria. Ministers express full support for cooperative international efforts to combat transnational bribery, money laundering, and other forms of economic crime.

IV. SDRs and Fund Quotas

8. Ministers welcome the agreement reached on a common benchmark ratio of net cumulative allocations to Ninth General Review of Quotas of about 29.32 percent, designed to address the equity issue. They emphasize that this one-time measure does not diminish or preclude the need for a general allocation. In this context, they also welcome the automatic allocation mechanism for new participants and note the treatment of countries in arrears with the Fund. Furthermore, Ministers stress the need to strengthen the role of the SDR in the international monetary system and intend to explore proposals to this end.

9. Noting the rapid action by the Fund in relation to the financial crisis in Thailand, Ministers stress the need, as in the earlier case of Mexico, for Fund support involving exceptional access in terms of quota. All member countries facing similar emergencies should receive commensurate support on the basis of the principle of uniformity of treatment. These events underscore the need for a substantial expansion of the Fund's own resources and a more predictable and positive Fund response to financial emergencies. Ministers reiterate the need for a meaningful increase in quotas, which should be predominantly equiproportional. In this context, Ministers endorse assurances regarding the maintenance of the representation of developing countries on the Fund's Executive Board and the modernization of the formulae for determining quotas in future reviews.

V. Mobilization of Resources and Debt Issues

10. Negative developments occurred with respect to official development assistance (ODA), as evidenced by the proposed reduction in the level of commitments in Japan's aid budget—once the largest donor. The percentage of combined donor GNP devoted toODA has continuously declined over the past 50 years and in 1996 fell to its nadir. Ministers emphasize the need to reverse this declining trend in order to help recipient countries alleviate poverty and reach sustainable growth. In this regard, they commend Denmark's ODA efforts and welcome the recent initiatives by the United Kingdom to embrace the 0.7 percent of GNP target.

11. Ministers urge that intensive efforts should continue to secure adequate funding for IDA. They stress that the burden sharing arrangements for the replenishment of IDA-12 should bring back the level of funding to that of IDA-10 in real terms—the level that is commensurate with the needs of the poorest countries. Looking to the future, Ministers reiterate their request for an in-depth exploration of complementary funding mechanisms. They call upon the donor community to support the Partnership for Capacity Building in Africa Initiative in order to optimize the use of IDA resources.

12. Ministers urge that a consensus be reached without delay in the MIGA Board on additional operating and callable capital for enlarging its resources to support a ten-year underwriting strategy. This would enable MIGA to continue to diversify its guarantee activities

at a pace that responds to the growing involvement of the private sector in infrastructure and other projects in the developing countries.

13. Ministers express concern about the slow progress made to date in implementing the debt initiative for the Heavily Indebted Poor Countries (HIPCs). While they note the preliminary agreements to implement the HIPC initiative, they call for a timely finalization of those agreements in order to allow eligible countries to benefit from the initiative. They appreciate the World Bank Board's recommendation to allocate an additional US$250 million from the IBRD surplus to the HIPC Trust Fund to meet the Bank's share of debt relief, as well as the authorization by the Fund's Board of a transfer of up to SDR 180 million from the Enhanced Structural Adjustment Facility (ESAF) Trust Reserve Account to finance special ESAF operations under the HIPC initiative. Ministers emphasize the need for Paris Club members and other bilateral official and commercial creditors to adhere to the principle of fully proportional burden sharing. In this regard, Ministers note with appreciation the debt relief being provided by some developing countries under the aegis of the Paris Club, and they express the hope that these countries would not be called upon to bear a disproportionate share of the overall provision of concessional resources to the HIPCs. Ministers again urge that, in order to allow beneficiary countries to reach debt sustainability rapidly and avoid additional costs associated with delays in debt relief, the period between the decision and completion points should be shortened and interim assistance should be provided.

14. Ministers reiterate their strong support for the continuation of ESAF operations and express serious concern about the lack of consensus on its funding modalities in the interim period (2001-2004). They stress the urgent need for additional financing from the sale of a portion of the Fund's gold as a valuable supplement to existing resources.

VI. UN and BWI Collaboration

15. Ministers note the recent adoption by the General Assembly and the Economic and Social Council of the United Nations of several resolutions relating to the need to strengthen the relationship and collaboration between the UN and the Bretton Woods institutions, at both the intergovernmental and secretariat levels. Ministers express the view that the idea of organizing an international conference with a broad agenda on the financing of development is timely, and to assure its success, this should be a joint endeavor of the United Nations and the Bretton Woods institutions.

VII. Note of Appreciation

16. Ministers express their profound gratitude for the invitation and hospitality provided by the Chinese authorities and the Hong Kong Monetary Authority, and they thank them for the excellent arrangements made for the meetings.

VIII. Date and Venue of Next Meeting

17. The G-24 Ministers will meet again in a special session in Venezuela in January 1998.