INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

COMMUNIQUÉ

October 3, 1998

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs held their sixtieth meeting in Washington, D.C., on October 3, 1998. Mr. Abdelkrim Harchaoui, Minister of Finance of Algeria was in the chair, with Mr. G.L. Peiris of Sri Lanka as First Vice-Chairman, and Mr. Germán Suárez of Peru as Second Vice-Chairman. The meeting was attended by Mr. Michel Camdessus, Managing Director, International Monetary Fund; Mr. James Wolfensohn, President, World Bank; Mr. Tarrin Nimmanahaeminda, Chairman, Development Committee; Mr. Makarim Wibisono, Chairman of the Group of 77; Mr. Nitin Desai, Under-Secretary-General, United Nations; Mr. Y. Akyuz, Chief, UNCTAD; Mr. G.K. Helleiner, G-24 Research Coordinator; Mr. Y. Seyyid Abdulai, Director-General, OPEC Fund for International Development; Ms. Inés Bustillo, Officer-in-Charge, Economic Commission for Latin America and the Caribbean; Mr. Ahmad M. Ali, President, Islamic Development Bank; Mr. Dai Xianglong, Governor, People's Republic of China; Mr. Mohammed Daïri, Morocco; Mr. Ibrahim A. Al-Assaf, Minister of Finance and National Economy, Saudi Arabia; Mr. Christian Stals, Governor, South African Reserve Bank.

The meeting of the Ministers was preceded on October 2, 1998 by the seventy-second meeting of the Deputies of the Group of Twenty-Four, with Mr. Mohamed Terbèche of Algeria as Chairman, Mr. Dixon Nilaweera of Sri Lanka as First Vice-Chairman, and Mr. Carlos Saito of Peru as Second Vice-Chairman.

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I. World Economic Outlook

1. The financial crises witnessed in the Asian region and the Russian Federation have seriously damaged their development efforts. The severe consequences of these crises on the world economy have been compounded by the sharp recession in Japan. In addition to the direct contagion effects and spillovers from market to market and from country to country, a generalized loss of confidence has resulted in unsustainable pressure on the exchange rate and the capital and current accounts in many parts of the world. Contemporaneously, financial markets have volatility which has resulted in higher interest rate spreads and the sharp slowing down of private capital flows to developing countries, leading thereby to a significant slowdown in economic activity. The substantial fall in commodity prices is adding to the difficulties faced by many countries and to deflationary pressures on the global economy. Many developing countries have suffered the loss of income, production, and export opportunities, and industrial countries have begun to feel the effects of the crises through large declines in stock markets,

pressures on their financial institutions, and lower exports, with severe downside risks for consumer spending and investor confidence.

2. The real social and economic costs of these recent crises are already considerable. Many developing countries have taken courageous adjustment and reform measures with the assistance of the international financial institutions to face the crisis or to enhance the resilience of their economies. These adjustment efforts have also entailed important social costs. These efforts need to be supported through an early adoption of coordinated monetary and fiscal policies, as well as appropriate structural reforms, in the major industrial countries in order to revitalize the world economy.

3. Ministers call for an easing of monetary conditions in major industrial countries, which would help restore confidence in international financial markets and relieve some of the pressures of capital outflows and heavy external debt-servicing costs for emerging market and developing countries. They also urge Japan to adopt a more expansionary fiscal policy and to take effective action to address the problems in its financial sector. Ministers express concern that, without a sufficient stimulus to domestic demand—particularly in crisis-affected countries—the recent widening of trade deficits in some industrial countries could intensify protectionist pressures in these countries.

4. Ministers note that the imminent introduction of a new currency—the euro—presents not only new opportunities for the world economy, but also challenges for macroeconomic policy formulation in an international monetary system based heretofore on national currencies. These developments require greater international cooperation and strengthened surveillance over the euro zone, in order to enhance the contribution of the euro to the stability of the international monetary system.

II. Resources and Debt

5. Ministers call for meaningful measures for debt alleviation—taking into account the needs of the poorest countries and, in special circumstances, the situation of severely distressed middle income countries—and the acceleration of greater official development assistance in order to release resources to enhance the growth prospects particularly of crisis-stricken and heavily-indebted developing countries.

6. Ministers reiterate their support for the Enhanced Structural Adjustment Facility (ESAF) Instrument, which has made a positive contribution to the adjustment efforts of many developing countries. They note the contributions being made by developing countries toward the financing of the ESAF, despite their increasingly difficult circumstances. Ministers welcome the completion of the internal and external evaluations of the ESAF, and they urge the Bretton Woods Institutions (BWIs) to implement the relevant recommendations resulting from these evaluations in order to improve its efficiency. In particular, they underscore the importance of strong ownership in the success of the reform process, and they call for flexibility in the negotiation phase to provide the ESAF borrowers with a greater role in the design and sequencing of their program. They also urge for more emphasis to be placed on the identification of social costs of the programs and the establishment of adequate safety nets at an early stage.

7. Ministers note with concern that debt workouts for heavily indebted poor countries (HIPCs) are slow and inadequate. They express particular concern over the severe impact of reduced commodity prices on many developing countries, including those potentially eligible for ESAF/IDA support and the HIPC Initiative. They observe with distress that funding for the continuation of ESAF operations and for the HIPC Initiative still falls short of initially estimated requirements, even for the limited number of currently eligible countries. Of the forty-one initially targeted countries, nine countries have reached the decision point, of which only two countries have reached their completion points. Ministers urge the acceleration of the decision making process under the Initiative. They also call for more flexibility to allow for the shortening of interim period between the decision and completion points, and for the provision of sufficient assistance during the interim period. Ministers underline the need for an expansion of the bilateral contributions, within the context of proportional burden sharing, so as to enable more countries to benefit from the Initiative. In light of the increasing urgency of adequate financing for these purposes, they urge consideration of further financing measures, including further contributions by the Fund from the ESAF Trust Reserve Account and the optimization of IMF reserves, including through gold sales. Ministers welcome the decision to extend the sunset clause of the HIPC Initiative to end-2000, at which time there should be another review to decide if a further extension is needed.

8. Ministers note with concern the deterioration in the financial position of oil and primary commodity-exporting countries, following the sharp decline in international demand and prices. They call on the international financial community to support the efforts of these countries in facing the financial resource constraints that have emanated from the contagion effects of the recent crises.

9. The IMF's response to the current problems in the global economy have put its own resources under unprecedented strain. At the same time, the likelihood for further heavy demands on IMF resources in a crisis-prone global environment is high. As such, Ministers underline the urgent need to complete the agreed IMF quota increase under the Eleventh General Review and to ratify the SDR amendment. However, given the presently tight international financial situation and the difficulty of access to international financial markets by many developing countries, even these resources will not be sufficient. Ministers therefore urge immediate steps to be taken toward a prompt and substantial general allocation of SDRs. Additionally, they also express support for intensified consideration of special arrangements for crisis prevention and resolution through regional funds and other forms of bilateral or regional cooperation.

10. Ministers note that expanded provision of finance for countries in crisis has put tremendous pressure on IBRD resources, affecting its capacity to continue to play a constructive role in crisis resolution and prevention and in development finance. Ministers regret the recent actions of the World Bank Board of Directors—opposed by all developing countries—on IBRD net income allocations and loan charges. These decisions include an increase in the pricing of new loans (consisting of a 25 basis point increase in the loan spread and the addition of a 100 basis point front-end fee), and the cut from 25 to 5 basis points in the interest waiver applicable to existing loans from FY1999. These proposals, which place too much of the burden of resolving those capacity limitations on the IBRD borrowers, are inconsistent with the principle of

equitable burden sharing in the financing of Bank activities and are particularly inappropriate at a time of growing financial stress for a majority of borrowers. Raising loan charges exacerbate the weakening of the link between the provision of finance and the exercise of voting power with adverse consequences for the institution's cooperative character in which all stakeholders should share the burden more equitably. While taking note of the considerations behind these actions—in particular the need to maintain the Bank's high financial standing, as explained by the President of the World Bank—Ministers hope that the measures are temporary, and should be reconsidered should the circumstances of the international financial markets and of the Bank change. However, Ministers urge an immediate review of all available options for strengthening the IBRD's operational and financial structure, including a general capital increase and the establishment of the Special Trust Fund supporting new financial instruments, within the framework of a broader review of the overall architecture of the international monetary and financial system.

11. As IDA is increasingly becoming the main source of concessional finance for several developing countries—particularly the poorest among them—Ministers call for substantial funding for IDA-12 replenishment before the end of 1998, as planned. They also strongly urge that the cost of IDA lending should not be increased.

12. Human capital and institutional constraints are major obstacles for implementing reforms in sub-Saharan Africa. As the African Governors' Capacity Building Initiative is at an advanced stage, Ministers strongly urge the international community to provide the funding needed for implementing the Initiative, and they strongly support the urgent establishment of a Trust Fund for this purpose.

III. Architecture of the International Monetary and Financial System

13. While reiterating their commitment to an open global trade and payments system, Ministers note that for globalization to be effective requires the creation of strong national and international monetary and financial systems, so that all countries benefit from it. The widespread turbulence in financial markets of emerging economies and its spreading contagion to established markets in the major financial center countries has brought into a sharp focus the necessity of greatly strengthening the architecture of the international monetary and financial system and facilitating the effective allocation of adequate international liquidity.

14. Ministers take note of the intensified involvement of the BWIs in financial sector issues. They encourage the BWIs to help disseminate best practices in the financial supervision and regulatory areas and to strengthen their own capacity to promote technical assistance in these areas. Ministers emphasize that surveillance activities related to financial sector issues must be symmetric as between capital-receiving and capital-source countries. In this context, they stress the importance of strengthening supervision of financial institutions in the major financial markets—including hedge funds, currency traders, and other firms undertaking large cross-border transactions.

15. While fully committed to the provision of accurate and timely information on economic developments and prospects in their countries, Ministers note that premature disclosure of certain

types of information remain sensitive and might interfere with policy implementation. While supportive of progress made on transparency in BWI operations, Ministers nevertheless expect that further progress in transparency should take fully into account the need to protect the confidentiality and candor of the exchanges between member countries and the BWIs.

16. While recognizing the importance of a dialogue between the BWIs and market participants, Ministers expect such contacts to be mindful of the confidentiality of their relations with members, avoid sharing information with selectively chosen participants, and not allow themselves to be put in the position of serving as rating agencies for market institutions.

17. Ministers agree that, given the recent experience in the international financial markets, it would be prudent for countries to proceed cautiously with the liberalization of their capital accounts. They also reiterate that the pace of liberalization should take into account the specific circumstances of each country. Ministers note the importance of strengthening prudential regulation and supervision of their financial systems, in particular to ensure that they are able to intermediate short-term cross border flows efficiently. In the case of non-financial entities, they underscore the need for improved transparency and corporate governance. In this regard, they express a preference for market-based measures—as opposed to administrative measures—when deemed necessary to discourage short-term external borrowing. Ministers nevertheless expect that, while pursuing the liberalization of their capital accounts, members will have to keep open the possibility of applying appropriate measures to oversee the cross-border exposures of private sector entities and to curb excessive speculative activity in their foreign exchange and equity markets.

18. Ministers support the extension of the scope of the 1989 Fund policy of lending into arrears in circumstances where members are forced, through the declaration of debt standstills or moratoria, to interrupt the servicing of nonsovereign debt obligations in order to facilitate collaborative agreements between private debtors and their external creditors.

19. Ministers support the continued exploration of other proposals to support members' efforts to achieve orderly debt work-outs, including amendment of the Fund's Articles of Agreement to authorize a stay on the enforcement of creditor claims during the period when the member is negotiating and implementing a Fund supported adjustment program.

20. In view of the formidable economic and social difficulties facing post-conflict countries, Ministers stressed the importance of implementing well-structured post-conflict programs, including the establishment of a Trust Fund that, among other things, could help alleviate their debt burden.

IV. IMF-World Bank Collaboration

21. Ministers express their strong support for steps to improve collaboration between the IMF and the World Bank, while avoiding cross-conditionality. The current global financial crises, as well as the increased demands on the two institutions and the constraints of their resources, have highlighted the need for improving cooperation and collaboration. These efforts

should aim at clearly delineating their respective responsibilities and mandates, preventing duplication, and making better use of their resources.

V. Institutional Arrangements for Systemic Reform

22. The recent wave of crises underscores the intensity of the interaction between the economies and confirms the need to identify long-term responses to the many challenges of globalization. In particular, the need for constructive dialogue among developed and developing countries, especially with regard to the repeated appeals for reform of the international monetary and financial system, has become more urgent than ever. Accordingly, Ministers once again call for the establishment of a task force with participation from industrial countries and representatives from a wide range of developing countries to engage in an in-depth examination of issues related to the reform of the international monetary and financial system, especially those identified in the most recent G-24 ministerial communiqué (see attached). The terms of reference of the task force could include the examination of ways to approach these issues more efficiently within existing bodies.

23. The ongoing discussions among the industrial countries and a number of emerging or transition countries with respect to the problems that have arisen, and appropriate solutions to these problems, are an important step toward a dialogue which, to be comprehensive and effective, must necessarily include more adequate representation of the developing countries. This dialogue should not be a substitute to the relevant discussion in the appropriate decision making organs of the multilateral financial institutions.

Group of Twenty-Four Call for Task Force
on Reform of the International Monetary and Financial System
Excerpt from April 1998 Ministerial Communique

The Group of Twenty-Four calls for a wide-ranging review by a Task Force comprising industrial and developing countries—with representation based on the principle of inclusion, notexclusion—of the following issues:

- the capacities and modalities of the international monetary and development finance institutions to prevent, and to respond in a timely and effective manner to, crises induced by large-scale capital movements;

-the appropriateness of the conditions prescribed by these institutions to deal with such crises;

-the equitable sharing of the costs of post-crisis financial stabilization among private creditors, borrowers, and governments;

-the more effective surveillance of the policies of major industrialized countries affecting key international monetary and financial variables, including capital flows;

-the strengthening of social safety nets as integral elements of stabilization and adjustment programs to protect the most vulnerable segments of the population;

-the increased representation and participation of developing countries at the decision-making level of international financial institutions to properly reflect developing countries' growing role in the world economy, including through the revision of the bases determining the voting power in these institutions; and,

-the need to enhance the role of SDRs in the international monetary system to achieve greater stability, particularly in view of the prospect of an emerging polarization around three major currencies.