INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

COMMUNIQUÉ

April 26, 1999

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs held their sixty-first meeting in Washington, D.C., on April 26, 1999. Mr. G.L. Peiris, Minister for Justice and Constitutional and Ethnic Affairs and Deputy Minister of Finance of Sri Lanka was in the chair, with Mr. Germán Suárez of Peru as First Vice-Chairman, and

Mr. Mallam Ismaila Usman of Nigeria as Second Vice-Chairman. The meeting was attended by Mr. Michel Camdessus, Managing Director, International Monetary Fund; Mr. James Wolfensohn, President, World Bank; Mr. John Toye, UNCTAD; Mr. Oscar de Rojas, United Nations; Mr. S.R. Insanally, Chairman of the Group of 77; Mr. Dani Rodrik, G-24 Research Coordinator; Mr. Y. Seyyid Abdulai, Director-General, OPEC Fund for International Development; Ms. Inés Bustillo, Economic Commission for Latin America and the Caribbean; Mr. Ousmane Seck, Vice President, Islamic Development Bank; Mr. Liqun Jin, Vice-Minister of Finance, People's Republic of China; Mr. Samir Fouad, Morocco; Mr. Hamad Albazai, Deputy Minister of Finance, Saudi Arabia; Mr. Trevor Manuel, Minister of Finance, South Africa.

The meeting of the Ministers was preceded on April 25, 1999 by the seventy-third meeting of the Deputies of the Group of Twenty-Four, with Mr. A.S. Jayawardena of Sri Lanka as Chairman, Mr. Carlos Saito of Peru as First Vice-Chairman, and Mr. R.O. Mowoe of Nigeria as Second Vice-Chairman.

* * *

I. World Economy and International Monetary System

1. The world economic outlook remains uncertain. Current projections indicate a continuation of weak economic growth, slowdown in trade volume expansion, depressed primary commodity prices and declining capital inflows to developing countries. It is essential that additional policy actions be taken now in a pre-emptive manner to deal effectively with these adverse trends in the world economy.

2. Ministers welcome the broad-based easing of monetary conditions in the industrial countries, in particular the recent reduction of interest rates by the European Central Bank. They appreciate the determined efforts of the Japanese authorities to turn around the negative trends in the economy and welcome the fiscal stimulus introduced recently. They observe, however, a constellation of forces at work that does not appear to yield to traditional instruments of macroeconomic policy. Ministers are convinced that in addition to well-coordinated macropolicy actions, comprehensive structural reforms, mainly in the financial and corporate sectors, and labor markets, are crucial to the achievement of sustainable economic growth.

3. Ministers express concern about the pressure in some industrialized countries for resort to protectionism through various devices. They underscore the necessity of resisting such tendencies and emphasize the advantages of a further opening up of markets for the exports of developing countries.

4. While welcoming the successful launching of the euro at the beginning of the year, Ministers reiterate the critical need for greater exchange rate stability among the major international currencies in order to create a conducive external environment in which developing countries could continue with their economic liberalization measures and structural reforms, thereby enabling these countries to maximize the benefits of globalization.

5. While there are indications of incipient recovery in some parts of the developing world, contractionary tendencies remain dominant as a result of the sharp decline in primary commodity prices and massive reversals of private capital flows. Ministers pointed out that access to private capital markets is hindered even for emerging market economies with sound economic fundamentals and the cost of borrowing has been on the high side. They added that excessive reliance on short-term, volatile capital flows as sources of financing should be avoided.

6. Ministers note that some of the policies initially adopted for managing the crises of recent years may have inadvertently contributed to adverse effects through restrictive fiscal measures and high interest rates, which have discouraged investment and retarded the process of recovery. They welcome the subsequent flexibility shown by the IMF in taking into account the circumstances of individual countries and unforeseen developments. In this context, Ministers underline the need to keep adjustment measures and mechanisms under constant review, with a view to ensuring flexibility in policy recommendations to promote growth prospects.

II. Strengthening the Architecture of the International Financial System

7. Ministers underscore the necessity of comprehensive reforms of the international monetary and financial systems, geared to prevent costly economic crises and to manage them effectively when they occur. They are of the view that improvements in the system be built around the existing international institutions and emphasize the need for developing countries to have an equitable representation in this process. In this regard, Ministers reiterate their 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.

8. Ministers welcome the role played by the IMF as crisis manager and encourage it to continue with its efforts for strengthening the architecture of the system. They appreciate the actions of the Fund, in concert with the World Bank and the regional development banks, to serve as lenders in crisis situations.

9. Ministers welcome the establishment of the Contingency Credit Line (CCL) as a follow-up to the Supplemental Reserve Facility (SRF) to protect countries with sound fundamentals from the potential risks of financial contagion. They expect that the eligibility

criteria for access to the CCL to be administered in a manner that will provide incentives and equal opportunities for member countries. It is also desirable to avoid preconditions of parallel arrangements for private contingency financing, which would make it too costly to resort to the CCL. Ministers believe that the economic difficulties that facilities such as the SRF and the CCL seek to address have their roots in systemic weaknesses of a global character, and that their effective solutions will also have to be global. In this context, proposals for developing a global lender of last resort deserve further study and discussion.

10. Ministers are aware that any idea of the foregoing nature will raise issues of moral hazard. While recognizing the complexity of "bailing-in" measures, including the need to make them as voluntary as possible, Ministers welcome the many avenues being explored to involve the private sector in both forestalling and resolving financial crises. Among those that contribute to forestalling crises are private contingency lines of credit and intensified debtor/creditor consultations and amending sovereign bond clauses by incorporating sharing and minimum majority clauses, in which the industrial countries should take the lead. Among those that could both forestall and resolve crises are the possibility of the Fund lending into arrears and amending Article VIII, Section 2 (b) to allow the Fund to sanction a temporary stay on creditor litigation in extreme situations in order to facilitate orderly debt restructuring.

11. Ministers are convinced that integration into the global financial market remains a fundamental objective of the developing world. They believe, however, that the benefits of such integration can only be obtained in full measure if both the volatility and instability of short-term capital flows manifested in recent financial crises are contained. They consider that the pace and content of liberalization should be aligned with the ongoing process of strengthening the prudential supervisory regulations as they apply to financial institutions and to their corporate customers, especially the more highly leveraged ones, within both capital-receiving and capital-source countries. While this infrastructure is being developed, it is necessary to leave open the possibility of applying selective market-based controls on capital movements of a potentially disruptive character. Ministers underline that the process of capital account liberalization should be properly sequenced, and that the pace of liberalization should take full account of individual country circumstances. In this context, they visualize the Fund’s role as a facilitator of liberalization, keeping in mind the exchange regime and balance of payments implications of progress toward the opening of capital accounts and paying due attention to the creation of more orderly conditions in international capital markets. In addition, Ministers underline the importance of appropriate technical assistance to help countries strengthen their financial systems.

12. Ministers welcome the progress made on issues of transparency, but they emphasize the importance of concentrating on areas related to the core activities of the Fund. They reiterate their concern that publication of Fund staff surveillance reports is likely to compromise the quality and candor of discussions with member countries, thereby undermining the effectiveness of the Fund's surveillance function. This issue is especially pertinent in the case of a number of countries for which the publication of documents might lead to disproportionately large effects, because¾ notwithstanding countries' own publications¾ the Fund staff analysis might be the most visible external assessment of their policies. Ministers emphasize the need for enhancing

transparency in the working of private financial entities, especially the highly-leveraged institutions.

13. Ministers recognize that the development and implementation of internationally recognized standards are critical to the proper accountability of international financial institutions. However, they emphasize the need for a symmetrical application of transparency criteria between public institutions and the private sector. Ministers also note that countries at different stages of development will necessarily proceed at different speeds and will require extensive technical assistance in the process of applying these norms, the implementation of which should be voluntary and not undermine the development of their financial sectors.

14. Ministers welcome the efforts to strengthen the decision-making processes of the Bretton Woods institutions. Strengthening the existing instruments of international cooperation appears to be the best way of proceeding instead of experimenting with new institutional modalities. This would include strengthening the working procedures for the Interim and Development Committees¾ without undermining the role of the Executive Boards¾ in order to enhance their effectiveness. In view of the unique relationship of the Fund and the Bank, they consider it appropriate to give the President of the Bank the right to participate in the Interim Committee deliberations.

III. Development Financing

15. Ministers welcome the growing consensus on the need to restructure the HIPC Initiative. They support the recent proposals for improving the depth and breadth of the debt relief under the Initiative, the suggestions for relaxing the eligibility criteria, increasing the magnitude of debt relief, shortening the period required to benefit from the Initiative, and providing additional resources during the interim period. Ministers are aware that implementing these improvements will increase the cost of providing debt relief and that funding sources currently under consideration¾ the intended sale of a portion of the Fund's gold holdings and the transfer of balances from the SCA-2 Account¾ will provide only a small proportion of the required resources. They emphasize the necessity of appropriate burden sharing and of finding sufficient alternative financing mechanisms to provide additional relief, while at the same time to work on the modalities of gold sales to minimize any negative impact on the international price, and therefore on the economies of gold producing developing countries. Ministers welcome the recent expressions of intent by the G-7, as well as other creditor countries, to support the idea of restructuring the Initiative, and their willingness to forgive poor countries' ODA debt. They hope that this will not be at the expense of new ODA flows. Ministers urge these donor countries to complement their contributions to the HIPC Initiative and take steps to reverse the disturbing decline in ODA, which remains critical for the poorest countries even after the completion of comprehensive debt relief operations. While they appreciate the successful conclusion of the IDA-12 replenishment, they express their serious concern about the persistently declining ODA flows, which now stand at 0.20 percent of DAC countries' GNP.

16. Ministers support proposals to enhance assistance to post-conflict countries. They welcome the suggestion for additional Fund assistance up to 25 percent of quota in the second phase to provide required resources as well as a longer time-period for the countries to rebuild

their productive capacities. Ministers expect that Fund assistance for post-conflict countries from its General Resources Account (GRA) be transformed into sufficient funding of a concessional character to permit eligible members to repay their nonconcessional drawings from the Fund. Ministers appreciate World Bank proposals to address some of the major issues in post-conflict countries that have protracted arrears. They consider it essential to develop a collaborative approach that would be compatible with the policies on protracted arrears enunciated by the respective international financial institutions.

17. Ministers also welcome the proposals being discussed in the World Bank with regard to broadening the concept of conflict countries to include countries that are affected by conflict situations or at risk of conflict. With a view to achieving the Bank's overall goal of poverty alleviation, Ministers urge that appropriate mechanisms be developed by the Bank to assist these countries.

18. Ministers note that the Partnership for African Capacity Building Initiative has reached an advanced stage of preparation. As the lack of human and institutional capacity is perceived as a major constraint in the economic development efforts of sub-Saharan Africa, Ministers strongly urge the Bretton Woods institutions and bilateral and other multilateral donors to provide adequate resources and assistance to launch the Initiative and ensure its successful implementation.

19. Ministers agree in principle that a comprehensive development framework (CDF) is essential to maintain a balance between macroeconomic and social concerns. However, they are concerned about the planning capacity of members and external partners and the cost implications for borrowers in this regard. Ministers urge caution about the social and political sensitivity of the governance issues involved. They note that the CDF is still in an evolving mode and a number of details regarding the implementation strategy need to be further elaborated and developed. Ministers urge that the Bank closely monitors the Pilot Programs under the CDF and the experience be used as an opportunity for further refining the approach.

20. Ministers endorse the basic principles on promoting social development stipulated by the "Copenhagen Declaration," and support the UN agencies' coordination on the implementation of such principles. The Bretton Woods institutions and the regional development banks should participate according to their respective mandates and comparative advantages. Large differences exist among countries in terms of social development levels, policies, and stages of economic development. Therefore, when formulating principles and good practices in social policy, country characteristics and their social standards must be respected.

21. Ministers attach importance to the UN initiative on a high-level forum on financing for development, scheduled for 2001. In view of the importance of the subject for the Group and the Bretton Woods institutions, Ministers urge joint collaboration by the UN and the Bretton Woods institutions to ensure the success of the initiative.

IV. Date and place of next meeting

22. The G-24 Ministers will meet again on September 25, 1999.