INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

COMMUNIQUÉ

September 25, 1999

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs held their sixty-second meeting in Washington, D.C., on September 25, 1999. Her Excellency Mrs. Chandrika Bandaranaike Kumaratunga, President and Finance Minister for Sri Lanka was in the chair, with Mr. Germán Suárez of Peru as First Vice-Chairman, and Mr. J.O. Sanusi, Governor of the Central Bank 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. Alexander Shakow, Executive Secretary, Development Committee; Mr. Oscar de Rojas, Senior Adviser, United Nations; Mr. Yilmaz Akyuz, Chief, UNCTAD; Mr. Juan Somavia, Director-General, International Labor Organization; Mr. Dani Rodrik, G-24 Research Coordinator; Mr. Y. Seyyid Abdulai, Director-General, OPEC Fund for International Development; Ms. Helvia Velloso, Economic Affairs Officer, Economic Commission for Latin America and the Caribbean; Mr. Ahmad M. Ali, President, Islamic Development Bank; Mr. Mounir Zahran, Group of 15; Mr. Irfan Haque, South Center; Mr. Liqun Jin, Vice Minister of Finance, People's Republic of China; Mr. Samir Fouad, Chief, Ministry of Economy and Finance of Morocco; Mr. Ibrahim A. Al-Assaf, Minister of Finance and National Economy, Saudi Arabia; Mr. Mandisi Mpahlwa, Deputy Minister of Finance, South Africa; Mr. Carlos Massad, Governor, Central Bank of Chile; Mr. Mochammad Rosul, Director, Ministry of Finance of Indonesia.

The meeting of the Ministers was preceded on September 24, 1999 by the seventy-fourth 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 Dr. R.O. Mowoe of Nigeria as Second Vice-Chairman.

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I. World Economic Outlook and Policy Challenges

1. Global economic prospects and financial markets have improved in the last few months, largely allaying the earlier fears of a worldwide economic recession and a financial meltdown. However, the recovery in the developing world is still quite fragile, and a number of risks and uncertainties continue to pose challenges for policymakers.

2. A major concern arises from the unbalanced growth pattern among major industrial countries. The persistence of macroeconomic imbalances generates the potential risk of sharp corrections in asset markets, especially in the U.S. equity market and in foreign exchange markets worldwide.

Despite some stabilization in international financial markets, net capital flows to developing countries and transition economies have not yet recovered from the very low level reached in 1998. Moreover, the distribution of flows remains uneven, and interest rate spreads are still very large. Oil prices remain volatile, while non-fuel commodity prices remain depressed, and an early improvement in developing countries' terms of trade appears unlikely. Increasing protectionist tendencies in industrial countries, particularly non-tariffs barriers aggravate difficulties for developing country exports. Despite the various initiatives currently in place to address the problems of the heavily indebted poor countries, comprehensive relief is yet to be achieved. Furthermore, adverse reactions to actual or perceived Y2K compliance problem create an additional risk factor in the lead-up to the year 2000.

3. In noting the adjustment efforts undertaken by developing countries, Ministers consider that the uncertainty surrounding the sustainability of global growth requires a parallel effort on the part of industrial countries, particularly by strengthening macroeconomic policy coordination. They are of the view that enhanced policy coordination is crucial to contain sharp fluctuations in exchange rates among the major international currencies, which create severe difficulties for developing countries. Ministers stress that a significant lowering of selective tariff and non-tariff barriers in industrialized countries is imperative to help developing economies integrate into the global economy and achieve satisfactory growth rates. Involving the Private Sector in Forestalling and Resolving Financial Crises.

4. Ministers recognize that the role of private capital flows will continue to expand in an increasingly integrated global economy. Therefore, it is difficult to visualize the prevention or resolution of financial crises without direct and timely private sector involvement. In this regard, the major challenge for the international community is to develop a market-friendly strategy for involving the private sector in a manner that does not disrupt or unduly raise the cost of capital flows to developing countries. Ministers suggest that any strategy should minimize spillover effects on other borrowers. They encourage further progress toward voluntary arrangements for private sector participation before crises arise, such as through contingent credit lines, embedded call options, and debt service insurance. Other provisions are also needed to cover both crises prevention as well as resolution, including bankruptcy procedures, the establishment of creditor-debtor councils, and in extreme cases the possibility of a standstill of debt repayments. In addition, Ministers stress the importance of symmetrical disclosure of relevant information as between the private and public sectors.

5. Ministers consider that the current piecemeal approach being discussed in international for needs to be integrated into a comprehensive and structured framework, which should have sufficient operational flexibility. In this regard, the design of the framework could benefit from the case-by-case experiments currently under way. Such a framework must evolve on the basis of a broader participation of the international community, especially developing countries, and should be implemented on a voluntary basis. Pending the establishment of the framework, the principles under consideration should not be applied retroactively.

6. Ministers stress that, while the Fund has an important role to play in the evolution of this framework, its role should be that of a facilitator, rather than an arbiter enforcing particular modes of handling the relations of sovereign debtors with their creditors.

7. Ministers note that some industrial countries have indicated their willingness to incorporate majority restructuring and majority enforcement provisions in bond issues in their markets, and they encourage other industrialized countries to follow this lead, while reiterating their concern about the possible adverse impact on interest rate spreads of developing countries' bonds.

8. While welcoming the idea of creating creditors' committees, Ministers support the suggestion to define general principles and operational procedures rather than attempting to establish a standing body for negotiations with sovereign debtors for all creditors.

II. Surveillance and Standards

9. Ministers welcome the increased emphasis being placed on Fund surveillance of capital account and financial sector issues, vulnerability analysis, cross-country comparisons, and international aspects of a country's macroeconomic policies, especially with respect to the largest industrial economies. They also appreciate the progress made in the direction of greater transparency of Fund operations, while re-iterating the importance of maintaining the Fund's role as confidential and trusted advisor. Ministers encourage the continuation of the external evaluation process, which is making significant contributions to the improvement of various aspects of the Fund's activities. The increased attention given to standards of transparency and disclosure is acceptable, as part of Fund surveillance as long as it remains within the core competencies of the Fund and subscription to international standards remains voluntary. Assessments made on countries' practices in these areas, however, should take fully into account their institutional capacities and stage of development, so as not to place developing countries at a comparative disadvantage in their efforts in developing their financial systems. Appropriate additional technical assistance should be provided to help developing countries prepare for the implementation of international standards. Ministers stress that adherence to international standards should not be used in determining Fund conditionality.

10. Ministers note the ongoing work on a new capital adequacy framework aimed at strengthening the soundness of the global banking system. They caution against such a framework resulting in more stringent conditions and impeding access for developing countries to international capital markets. The role of credit rating agencies in the risk weight setting process should be examined with caution.

III. Conditionality

11. Ministers express concern about the intrusiveness into socio-political matters-stretching beyond the mandate of the BWIs-as reflected in the increasing tendency to extend conditionality to issues of governance and social policy. New layers of conditionality are being added with respect to private sector involvement in crisis resolution that are likely to raise the costs of access to markets, if not prevent access altogether. Ministers express their strong reservation to applying ESAF and IDA conditionality to the regular operations of the BWIs.

IV. Exchange Rate Regimes

12. Ministers note that the volatility between the three major currencies poses risks not merely to their respective economies, but more so to others-particularly developing countries. Therefore, they call for stronger international policy coordination to reduce such volatility and for closer surveillance of the major industrial countries, including on the international implications of their domestic policies.

13. Ministers reiterate the right of members, as recognized in the Fund's Articles of Agreement, to choose their own exchange rate regime. They are of the view that there is no single regime that is most appropriate for all countries. Ministers stress that the Fund's financial support should not be based on the choice of any particular exchange rate regime.

V. Capital Account Liberalization

14. In light of the recent financial crises, Ministers consider that the coordination of various elements in the process toward capital account liberalization is of critical importance to minimize potential risks. These elements include a consistent macroeconomic policy framework, a sound and well-regulated domestic financial sector, and an appropriate contingency mechanism to deal with potential threats to the sustainability of open capital account regimes. As the applicability of the recently introduced Contingent Credit Line (CCL) appears limited, Ministers call for a re-examination of all possible options, including the evolution of a global lender-of-last resort. Further analysis of the use and effectiveness of specific controls is needed, particularly in relation to the operation of derivatives markets and their impact on the effectiveness of financial regulation and supervision.

VI. SDR Allocation

15. Ministers consider that the SDR instrument should be more readily used to supplement members' reserves at times of liquidity uncertainties. The present circumstances, in which developing countries are faced with a sharp contraction in capital flows and very high interest rate spreads, justify in our view a sizeable general SDR allocation. Such a strengthening of members' reserves would also give more confidence to members seeking a greater integration into the world economy. Ministers also urge the ratification of the Fourth Amendment on the equity allocation of SDRs as soon as possible.

VII. Institutional Arrangements

16. Ministers support the proposed transformation of the Fund's Interim Committee into the International Monetary and Financial Committee (IMFC), and they note the strengthening of Fund-Bank collaboration. They are aware of proposals to establish informal mechanisms for dialogue between "systemically significant" countries. Ministers stress that, in order for such mechanisms to gain ownership and representativeness, the choice of participants should take into account the constituency structure of the Bretton Woods Institutions. They consider that such mechanisms should not undermine the role of the BWIs' Executive Boards and Committees as the appropriate fora for addressing the main issues facing the international monetary and financial system.

17. While welcoming the establishment of the Financial Stability Forum, Ministers consider that developing countries should be appropriately represented in order to ensure that their views are properly reflected.

VIII. Delopment Financing

18. Ministers welcome the Cologne Debt Initiative and the global consensus for deeper, broader, and more rapid debt relief to foster sustainable development and poverty reduction among the heavily indebted poor countries (HIPCs). They agree that the resources being freed by the Initiative should be directed to poverty reduction efforts, and they welcome in particular the proposal to make sustainable poverty reduction a central focus of the ESAF. They stress that, as resources released by the Initiative will not be sufficient to meet poverty reduction and social needs nor enhance growth prospects, additional concessional resources should be mobilized. Ministers see merit in developing a general framework, which would properly take into consideration social issues and the link between debt relief and poverty reduction in World Bank- and Fund-supported programs under the enhanced HIPC (HIPC II), as well as strengthen countries' ownership of programs and reforms. The implementation of poverty reduction programs should not delay the delivery of debt relief nor overburden members with conditionality.

19. Ministers are concerned about the difficulties being encountered in securing the necessary funding for the enhanced HIPC framework. They call for an equitable burden sharing among all creditors. Funding for the enhanced HIPC should not be at the expense of non-HIPC developing countries, including those borrowing from multilateral and regional development banks, nor the development and poverty-reduction needs of the HIPC countries themselves. In this connection, they express their serious concerns about using IDA resources in any form to fund the Initiative. Many developing countries have already made pledges and contributions-some in excess of what industrialized countries have already made in relation to their capacity to contribute. Industrialized countries-particularly the G-7 countries-should provide more resources than those currently pledged.

20. Ministers welcome the Fund proposal to implement off-market gold transactions as a way to minimize the possible adverse effect on the gold market. Every effort must be made to minimize the cost of increased reserve tranche positions on developing countries.

21. Ministers express serious concern about the debt problems of middle-income heavily indebted countries and non-HIPC low-income countries, and they urge that consideration be given to alleviating their debt burdens.

22. Ministers note that the IDA-12 replenishment was accomplished successfully. They emphasize the importance of implementing the decision on funding in line with traditional burden-sharing formula to prevent the recurrence of difficulties experienced in the IDA-11 exercise.

IX. World Bank Capital Adequacy

23. While recognizing the important role played by the World Bank in financial crisis lending operations, Ministers note that the resulting significant portfolio expansion combined with a higher degree of risk concentration and the increasing demand on net income have contributed to growing pressures on the Bank's risk bearing capacity. They also note that, in the absence of sufficient bilateral contributions in support of the enhanced HIPC Initiative, pressures may emerge to generate income to finance the higher debt relief costs. Ministers consider that it is essential that the resolution of the capital adequacy issue should not result in heavier lending charges for borrowing countries, and that all other equitable options be explored, including a general capital increase.

X. Comprehensive Development Framework (CDF)

24. Ministers welcome the World Bank's Comprehensive Development Framework (CDF), which calls for a long-term development vision that provides opportunities for developing countries to formulate their own development strategy in consultation with all major partners in the international community and domestic stakeholders. They consider that the CDF should be seen as a process-not a blueprint-that takes country specifics into consideration. Ministers expect any implementation problems to be addressed systematically in the light of the experience gained with the pilot projects now in operation in twelve countries.

XI. International Trade

25. Developing countries continue to encounter serious impediments to access industrial country markets, despite industrial countries' commitments made during the previous trade negotiations-particularly in sectors in which developing countries enjoy a comparative advantage. Ministers caution against the inclusion of non-trade issues in any new round that could further disadvantage developing countries' trade prospects. They welcome the efforts of the international institutions, including the Bank and the Fund, to analyze new issues and activities relating to international trade, which lead to an enlargement of trading opportunities for developing countries. Ministers look forward to the work of the International Task Force led by the World Bank to formulate a new initiative to introduce commodity risk management practices in developing countries, which, among others, could help reduce the volatility of producers' incomes. In order to take full advantage of the forthcoming trade discussions, they underscore the necessity of appropriate technical assistance to help strengthen developing countries' negotiating capabilities. Y2K Initiative

26. Ministers welcome the recent decision of the Fund to provide members that may face Y2K-related balance of payments needs with front-loaded and short-term access to Fund resources. They expect the Fund to maintain flexibility in determining access limits and the period up to which the new facility will be available, and to consider appropriate means of assisting low-income members to address their Y2K-related problems.

XII. Date and Place of Next Meeting

27. The G-24 Ministers will meet again on April 15, 2000 in Washington, D.C.