INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

COMMUNIQUÉ

September 23, 2000

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs held their sixty-fourth meeting in Prague, Czech Republic, on September 23, 2000. Mr. Carlos Saito, Special Adviser to the President of the Central Bank of Reserve of Perú, was in the chair with Joseph Sanusi of Nigeria as First Vice-Chairman, and Mr. Georges Corm of Lebanon as Second Vice-Chairman.

The meeting of the Ministers was preceded on September 22, 2000 by the seventy-sixth meeting of the Deputies of the Group of Twenty-Four, with Mr. Carlos Saito of Perú as Chairman.

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A. Welcome to South Africa as a New Member

1. Ministers express their sincere welcome to South Africa on their entry into the Group. They look forward to the active and constructive participation of South Africa in the work of the Group.

B. World Economic Outlook

2. Ministers note the continuation of the general recovery following the recent financial crises that severely affected developing countries. They express concern, however, over the large and persistent current account imbalances and currency misalignments among the major economies. Ministers stress that any sudden correction of those imbalances or misalignments, if not appropriately addressed, will pose significant risks to the stability of financial and commodity markets, intensify protectionist tendencies, and inflict disproportionately larger and more enduring costs on developing countries. Ministers express concern about the large cyclical swings in the price of oil. The instability in oil prices, together with the deterioration in the terms of trade due to the decline in other commodity prices, has implications for the balance of payments of developing countries. They stress that oil price stability benefits both producing and consuming countries, and they express the hope that mutually supportive measures on the part of producer and consumer countries could be implemented that would contribute to oil market stabilization.

3. Given the fact that domestic policies of the major industrial countries have significant repercussions on developing country economies, Ministers emphasize the imperative need for better coordination, coherence, and mutual reinforcement of macroeconomic and structural

policies among the three major economies in order to reduce the risks and uncertainties in the global economy. They consider this to be the principal line of defense in the prevention of global crises. Ministers consider that multilateral surveillance has not been fully effective in promoting the much-needed coherence of the macroeconomic policies of the major industrial countries. This contributes to large fluctuations and misalignments among the major international currencies. They express concern that developing countries are forced to bear the burden of adjustment of such large swings in the key currencies.

4. Ministers reiterate the importance of developing countries maintaining autonomy in the management of their capital accounts and in the choice of their exchange rate regimes. They consider that, in the rapidly evolving international environment, it is important to avoid extreme solutions for the economic problems faced by developing countries.

C. Impediments to Global Growth and Poverty Reduction

5. Ministers express concern that protectionist measures employed by industrial countries vis-à-vis developing countries impede global employment growth and poverty reduction opportunities. Average tariff levels applied to developing country exports by developed economies are four times higher than those applied to their peers. Furthermore, tariff and non-tariff trade barriers are especially significant in areas in which developing countries have a comparative advantage, including labor-intensive activities such as textiles and services, as well as agricultural products. These trade policy matters are of global systemic significance and should constitute an important component of multilateral surveillance in a symmetric manner. Ministers also call for rapid trade liberalization and elimination of distorting domestic subsidies by developed countries, in particular to promote growth and strengthen poverty reduction efforts in developing countries.

6. Ministers express concern about the slow progress in the financing of the enhanced HIPC Initiative, despite political expressions of intent by the G-7 and other industrial countries. The severe underfunding of the HIPC Trust Fund and the legislative delays in permitting the transfer of the remainder of the investment income from gold transactions to finance the IMF's share are indicative of the overall insufficient political support of the Initiative. Ministers stress that the funding of the multilateral component of the Initiative remains unresolved. Insufficient bilateral contributions will imply shifting the burden of mobilizing needed resources to other developing countries through an increase in lending charges or the diversion of poverty reduction efforts and development finance. They call on industrial countries to provide sufficient additional resources and to accelerate their disbursements to ensure that all eligible countries could benefit from debt relief. Ministers also expect that all donors' contributions to the enhanced HIPC Initiative will not compromise other concessional flows, such as IDA, PRGF, and ODA.

7. Ministers consider that the Initiative contains design flaws, such as the application of the Paris Club principle of comparability of treatment. This unreasonable expectation assumes that all other bilateral creditors, including developing countries and several HIPCs among them, should bear the same financial burden as the major industrial countries to support debt reduction operations. In this context, Ministers stress that particular attention should be given to providing financial support that allows the participation of those developing countries—including HIPCs—whose claims on other HIPCs represent a large proportion of their GDP and exports. In addition,

they observe that a factor contributing to the slow pace of implementation of the Initiative is the insistence on the receipt of all creditor contributions. In this regard, Ministers propose that the provision of debt relief should always take place once a critical mass of contributions has been achieved.

8. Ministers regret that the donor community has not effectively addressed the situation of deepening poverty, heavy economic costs, and debt burden in countries in conflict and post-conflict countries. They strongly urge the Bretton Woods Institutions (BWIs) to take serious steps to help these countries accelerate their transition to peace, reconstruction, economic stability, and the normalization of relations with the international community. Ministers also note that the post-conflict fund established by the World Bank in 1997 has yet to benefit African and other countries in a meaningful way.

9. Ministers note the additional flexibility that has been introduced in the process of preparing Poverty Reduction Strategy Papers (PRSPs) and Interim PRSPs. However, they stress that, for the process to be successful, substantially more technical assistance will be required to improve the capacity of members to prepare suitable PRSPs, as well as to implement the commitments made in PRSPs.

10. Ministers note the intention to streamline IMF conditionality in PRGF-supported programs in order to better focus the IMF's role in the core areas of its mandate. They stress the importance of initiating this streamlining process with immediate effects for all new PRGF-supported programs. In the interest of preserving uniformity of treatment among members, they suggest that a review be conducted of all current PRGF-supported programs with a view to reviewing and streamlining the structural conditionalities in these programs in line with the new approach being proposed by the Bank and the Fund. Ministers propose that the joint staffs of the two institutions prepare a progress report for the 2001 spring meetings, identifying progress in streamlining PRGF conditionality and establishing the Bank's Poverty Reduction Support Credit facility.

D. Evolving Role of the IMF and the World Bank Group

11. Ministers take note of the joint statement of the IMF Managing Director and the World Bank President that defines their vision for the respective institutions. They welcome the efforts being made by them to move away from micro-management in their conditionalities to emphasize country ownership and to invoke a more participatory approach. Ministers encourage them to resist non-economic considerations in their decision making, and they welcome the commitment of the World Bank to respond more expeditiously to the needs of member countries. Ministers note, however, that the vision presented by the Managing Director and the President is based on a world economy dominated by private capital flows. In this context, they stress that for a large number of developing countries, access to private capital markets is either costly, very limited, or unavailable. Moreover, even for countries with large access, capital flows could be volatile and destabilizing. Ministers consider that these international financial institutions should strive to ensure that the globalization process benefits all member countries through more evenly shared prosperity.

12. Ministers agree that the Fund, in collaboration with the World Bank, must focus on systemic issues relating to the functioning of financial markets. However, this priority should not replace or undermine the IMF's obligations in terms of its traditional responsibility to stand ready to support balance of payments adjustment of all its members, including the poorest among them. Ministers note with regret the significant decline in the World Bank's lending commitments. They also regret the pressure for raising lending charges in the Bank in order to increase net income. They stress that shifting the burden of helping the poorest countries to those relatively less poor should be avoided.

13. Ministers welcome the World Bank's partnership with other multilateral institutions and donors in the provision and financing of global public goods, such as combating communicable diseases and sharing knowledge. They stress that the Bank's resources are limited and financing for these initiatives should be done on the basis of equitable burdensharing. Ministers are concerned that such insufficiently funded new initiatives might crowd out traditional Bank activities and add to pressures for higher loan charges.

E. International Standards and Codes

14. Ministers recognize the positive aspects of the development of international codes, standards, and best practices in the spheres of data dissemination, fiscal transparency and transparency in monetary and financial policies, and the management of debt as well as reserves. However, they note that the participation of developing countries in discussions on the development of these standards and codes has been limited, and they call for a more inclusive process. Ministers continue to underline the voluntary nature of implementing such codes and standards, taking into account the particular institutional capacities and stage of development of each country. They also stress the importance of the availability of appropriate technical assistance where needed. Ministers find the application of codes and standards to be highly asymmetric. Standards in the area of transparency are being pressed upon developing countries without a commensurate application of corresponding obligations for disclosure by financial institutions, including currently unregulated highly-leveraged institutions. Ministers would insist that any monitoring of standards and codes within the corresponding competencies of the BWIs should be done on a strictly symmetric basis. Moreover, compliance with such standards and codes should not be prematurely integrated into the Article IV consultation process and must not become a condition for use of IMF resources.

F. Governance of the Bretton Woods Institutions

15. Ministers express concern about the ever-mounting political pressures and non-economic considerations that are interfering with the process of approval and implementation of the BWIs' programs and projects. These pressures and considerations are severely restricting the BWIs' ability to fulfill their mandate. Ministers urge the BWIs to adhere strictly to the relevant provisions in their mandates as stated in their respective Articles of Agreement.

16. Ministers welcome the decision taken by the Executive Board of the IMF on the establishment of an Independent Evaluation Office, and they look forward to its significant contribution to enhancing the effectiveness, transparency, and accountability of the institution.

17. Ministers welcome the formation, in response to the request in the G-24 April 2000 communiqué, of Executive Board working groups in the BWIs to review the selection process of the Managing Director of the IMF and the President of the World Bank. They consider transparency of the selection process, the full involvement of all shareholders in that process, and the selection on the basis of merit to be vital components of the reform of the BWIs. Ministers look forward to the presentation of the final reports of the two working groups at the spring 2001 meetings.

18. Ministers welcome the ongoing discussion of a whole range of complex issues relating to the role, structure, and context of the Fund's quota formulae. They hope that these discussions will lead to a more balanced distribution of quotas between industrial and developing economies and the provision of a larger voice for developing economies in the decision making process of the Fund. They also reiterate their support for a revision of the size of the basic votes.

G. Facilities of the Bretton Woods Institutions

19. Ministers note the intensive efforts currently underway for reforming IMF facilities and hope that the latest decisions of the IMF's Executive Board—especially the elements relating to making the Contingent Credit Line (CCL) more attractive—would constitute an important improvement in the operation of the facilities. They note, in particular, that the preventative character of the CCL has been considerably strengthened by the proposed greater automaticity of its activation by countries faced with contagion. Ministers also welcome the increased incentives that the CCL could provide to eligible countries to maintain good policies. They urge the international community to support the early eligibility of interested members. Ministers underscore the following imperatives in the future evolution of the IMF's various facilities. First, there should be sufficient flexibility in the administration of the facilities to meet the diverse requirements of the IMF's heterogeneous membership, given their different stages of development and the variety of shocks affecting them. In this context, Ministers propose that, should the present level of oil prices be sustained, access under the Compensatory Financing Facility and the PRGF should be more flexible. Second, changes in the facilities must not jeopardize the fundamental cooperative character of the IMF. Third, IMF financing should be complementary to borrowing from capital markets rather than a substitute, in view of the fact that structural reforms take relatively longer to formulate, implement, and bear fruit, depending on the country's degree of integration into the global economy.

20. Ministers note that surcharges adopted in the latest IMF decision on credit outstanding above a threshold level would not be changed for at least four years. They, however, view that further increases in charges would not be desirable for the foreseeable future.

21. Ministers welcome the work underway in the World Bank to better customize its response to the specific conditions of different groups of clients and in light of the evolution of the world economy. They look forward to the deliberations on the proposed Poverty Reduction Support Credit and the Development Support Loan. Ministers also note the intention to review the framework of adjustment lending with a view to introducing a new approach to adjustment lending that would focus more on social, structural, and institutional reforms. They expect that this will support countries' programs with minimal conditionalities.

H. Proposals to the International Community

22. Ministers propose that the Fund deepen its studies of proposals for engaging, in a case-by-case manner, the private sector in the resolution of financial crises, including the development at the international level of equitable procedures for debt settlement as already exist at national levels.

23. Ministers re-iterate their support for the study of a systemic emergency facility that could decisively underpin confidence in the international system when confronting extremely severe market crises. In this regard, Ministers recall proposals for the IMF to be authorized in the event of a systemic liquidity crises to provide, through the temporary creation of SDRs, additional liquidity as needed—and to withdraw it when the need has passed. Ministers reiterate their call for a study of this matter and propose its discussion at the autumn 2001 International Monetary and Financial Committee meeting.

24. Ministers reiterate their call for all Fund members to ratify the Fourth Amendment on the equity allocation of SDRs as soon as possible.

25. Ministers are deeply concerned with the growing cost for members borrowing from the World Bank. In addition to the progressive increase in loan charges, the growing economic and financial cost for complying with safeguard policies and fiduciary requirements, and unrealistic standards and technical requirements, are placing a significant burden on borrowing countries. Ministers look forward to the completion of the work of the Bank's task force on the trend of overall borrowing costs and its bearing on the sharp decline in lending commitments, and propose its discussion at the spring 2001 Development Committee meeting.

26. Ministers welcome the progress being made in the Financing for Development process at the United Nations, and they call upon the Bank and the Fund to continue their support for the process

I. Note of Appreciation

27. Ministers express their gratitude for the invitation and hospitality provided by the Czech authorities, and they thank them for the excellent arrangements made for the meetings.

J. Date and Place of Next Meeting

28. The G-24 Ministers will meet again on April 28, 2001 in Washington, D.C.

LIST OF PARTICIPANTS

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR
ON INTERNATIONAL MONETARY AFFAIRS
SIXTY-FOURTH MEETING OF MINISTERS

Prague, Czech Republic, September 23, 2000

African Group: A. Benachenhou, Algeria; M.N. Mawampanga, Congo; Yao Kouane, Côte d'Ivoire; Ismail Hassan Mohamed, Egypt; Teklewold Atnafu, Ethiopia; Anidzembe Philibert, Gabon; Ernest Ako-Adjei, Ghana; Ernest C. Ebi, Nigeria; Timothy T. Thahane, South Africa.

Asian Group: Bimal Jalan, India; Mohsen Noorbakhsh, Islamic Republic of Iran; Jihad Azour, Lebanon; Shaukat Aziz, Pakistan; F.E.R. Alfiler, Philippines; W.A. Wijewardena, Sri Lanka; Mohammad Bachar Kabbarah, Syrian Arab Republic.

Latin American Group: G. Zoccali, Argentina; Marcos de Paiva, Brazil; Luis Bernardo Florez, Colombia; Lizardo A. Sosal, Guatemala; Agustin Garcia-López, Mexico; Ivan Rivera, Peru; Brian Kuei Tung, Trinidad and Tobago; Angel Ruocco, Venezuela.

Observers: Xianglong Dai, People's Republic of China; Mohammed Dairi, Morocco; Hamad S. Albarai, Saudi Arabia.

Special Guests: Horst Köhler, International Monetary Fund; James Wolfensohn, World Bank; Yashwant Sinha, Development Committee; Ian Kinniburgh, United Nations; Yilmaz Akyüz, United Nations Conference on Trade and Development; María Angelica Ducci, International Labor Organization; William Larralde, G-24 Liaison Office; Dani Rodrik, G-24 Research Coordinator; Y. Seyyid Abdulai, OPEC Fund for International Development; Eduardo Mayobre, SELA; Lamine Doghri, Islamic Development Bank; Mourad Ahmia, Group of 77.

Executive Directors and Alternates
International Monetary Fund: Vijay Kelkar, Roberto Junguito, Abbas Mirakhor, Hernan Oyarzabal, Shakour Shaalan, Samba Thiam, Benhua Wei.
World Bank: Khalid Alsaad, Inaamul Haque, B.P. Singh, Xian Zhu.

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G-24 Secretariat: Patrick Cirillo, Brenda Campbell.