INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS AND DEVELOPMENT

COMMUNIQUÉ

April 11, 2003

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development held their sixty-ninth meeting in Washington, D.C., on April 11, 2003. Mr. Fuad Siniora, Minister of Finance, Lebanon was in the chair, with Senator Conrad Enill, Minister in the Ministry of Finance, Trinidad and Tobago, as First Vice-Chairman, and Mr. Damian Ondo Mañe, Executive Director, IMF, representing Gabon, as Second Vice-Chairman.

The meeting of the Ministers was preceded on April 10, 2003 by the eighty-first meeting of the Deputies of the Group of Twenty-Four, with Mr. Alain Bifani, Director-General, Ministry of Finance, Lebanon, as Chairman.

I. GLOBAL ECONOMIC PROSPECTS

1. Ministers observe that, since their last meeting in September 2002, the global economic recovery has become much weaker than anticipated and the outlook remains highly uncertain. This uncertainty owes much to the widening global imbalances, the slowing growth in major advanced economies, the lack of progress in addressing structural problems in major economies, and the effects of the bursting of the asset price bubble. This situation has been exacerbated further by the war in Iraq, which will have serious implications, not only for Iraq and the neighboring countries, but is also likely to impact negatively on countries outside the region. Ministers urge the international community to be vigilant and stand ready to provide special financing to countries that may face significant burdens on their balance of payments and to mitigate risks associated with commodity shocks and the decline in tourism receipts and private transfers. They note that small states are often severely affected by these negative developments.

2. Ministers note that this increased uncertainty raises more fundamental concerns regarding the multilateral, cooperative, and institutional approach to international decision making, including those dealing with economic and financial governance. This approach is more critical today than ever, in light of the increased interdependence and the heightened global risks. Ministers call for a reaffirmation of this approach through a clear commitment by all countries and groups of countries, meeting in Washington, D.C. this week, to the shared economic, financial, and development goals, and to the actions necessary to achieve them.

3. Ministers are concerned about the continued sluggishness of domestic demand in major industrial countries, as evidenced by the stagnation of industrial production, the slowing down of world trade growth, the softening of labor market conditions, and the weak recovery of global fixed investment. They observe that the continued decline in global equity markets and fragility of investor confidence in international capital markets have turned emerging markets into net capital exporters and intensified the risks of a credit crunch. Ministers emphasize in this regard that a striking feature of the current international economic situation is that the United States has become the largest debtor and importer of capital.

4. Ministers share the concern of the Managing Director of the IMF that, based on current policies, the U.S. fiscal deficit will increase sharply over the coming years. The likely widening of the current account deficit could well lead to further diversion of resources from developing countries. A sharp fall in the dollar could induce a marked rise in interest rates, hindering the recovery of the U.S. economy with serious implications for the developing countries. Ministers view medium-term fiscal consolidation in the United States, together with demand expansion in the euro area, and a stronger pace of structural reform both in Europe and Japan, as critical to mitigating these risks.

5. Ministers note that developing countries have made significant progress in reforming their economies and in adopting sound growth-oriented policies. However, current global uncertainties and the resulting exchange rate volatility, the high instability of private capital flows, the slow pace of resolution of conflicts in several countries, the protracted decline in commodity prices and the devastating effects of drought and disease in a number of sub-Saharan African countries are causes for concern.

6. Ministers express grave concern about the serious situation prevailing in Iraq in the wake of the war and the resulting humanitarian plight of the civilian population and the destruction of the country’s physical and social infrastructure. They call on the United Nations to address the situation in accordance with its charter, including the potentially large humanitarian needs of the Iraqi people and to contribute to the task of reconstructing the country following the war. Ministers also call on the international financial institutions (IFIs) to stand ready to play, in full coordination with the UN, a strong supportive role in Iraq, as well as in other affected countries.

7. Ministers welcome the reforms adopted by the Palestinian authorities to improve economic management in the Territories. At the same time, they remain deeply concerned about the situation in the Palestinian Territories. Ministers call on the international community to redouble its efforts to achieve a lasting peace and to help the Palestinian people to rebuild their infrastructure and institutions.

8. Against this backdrop of geopolitical uncertainties and rapidly changing conditions, Ministers call for the strengthening of the international cooperative effort. The major pillars of this effort should be: (i) the establishment of a stable international economic and financial environment; (ii) progress toward achieving the Millennium Development

Goals (MDGs); and (iii) the advancement of the multilateral trade negotiations under the Doha Round, encompassing, in particular, the elimination of trade-distorting agricultural subsidies and domestic support schemes in advanced countries. Moreover, the IFIs should respond flexibly to the needs of member countries and provide the necessary support.

II. PRIVATE CAPITAL FLOWS

9. Ministers observe that the troubling features of international financial markets are the high volatility and the declining trend in private capital flows to emerging market countries. As a result, several of these countries have become net capital exporters. Additionally, in order to protect themselves from the increasing volatility of capital markets and commodity price shocks, in the absence of predictable support from IFIs, a number of developing countries have increased markedly their stock of reserves at the cost of reduced domestic investment and financing for economic development. In line with the Monterrey Consensus, Ministers urge the international financial institutions, as well as official institutions in industrial countries, to implement measures aimed at promoting larger and more stable capital flows to developing economies and restoring confidence in international capital markets.

III. CRISIS PREVENTION AND RESOLUTION

10. Ministers stress that, in order to be effective in crisis prevention, IMF surveillance should focus on core macroeconomic issues and be applied in a more even-handed manner. Given that industrial countries' policies have a major impact on the global economy, the IMF should review its policies with respect to the surveillance of industrial countries in order to enhance its effectiveness.

11. Ministers point out that, in addition to effective surveillance that encourages sound policies, crisis prevention requires predictable, timely, and adequate official financing, particularly from the IFIs, in support of member countries' reform programs. This would reduce the need to hold high levels of reserves and avoid excessive reliance on adjustment. Ministers underscore the role of IMF financing as a key benefit of the membership, as established in the Articles of Agreement. They call on the IMF to develop an effective crisis prevention instrument that addresses the major shortcomings, which had discouraged the use of the Contingent Credit Line.

12. Ministers recall that several emerging market economies have expressed reservations about the proposed Sovereign Debt Restructuring Mechanism (SDRM), while remaining open-minded on the incorporation of collective action clauses into new international sovereign bond contracts, as demonstrated by some developing countries. They reiterate their preference for voluntary, market-friendly approaches to debt restructuring, with

due consideration to member country circumstances. They note the progress in the development of a voluntary code of good conduct for sovereign debt restructuring, and stress that it requires the full participation of developing countries.

IV. COMMODITIES

13. Ministers note that non-oil commodity exporters suffer from a secular downward trend in prices and are subject to severe price shocks. A World Bank study found that the cumulative negative effect of a typical large shock can approach 20 percent of GDP. They call on the IMF to review the terms and conditions of the IMF's Compensatory Financing Facility (CFF) to make it more accessible and relevant for the current circumstances. Ministers recognize that the World Bank has done extensive work on commodity risk management arrangements. They urge that as a matter of priority, the IFI's consider modalities of assistance and support to members faced with commodity price shocks.

V. PARTICIPATION OF DEVELOPING COUNTRIES IN THE DECISION-MAKING PROCESSES OF BWIs AND SDRs

14. Ministers note with satisfaction that the need to enhance the voice of developing countries in the decision making process of the BWIs is now universally recognized, as was expressed in the Monterrey Consensus.

15. In this regard, Ministers reiterated their position that, in order to enhance the legitimacy of the IMF and the World Bank, the voice, participation, and voting power of developing countries in the decision-making processes of these institutions should be significantly strengthened through: (i) a quota distribution that reflects correctly the relative economic position of these countries in the world economy; (ii) a substantial increase in basic votes to restore their role in relation to total voting power at the inception of the IMF and the World Bank. Also, given that the size of the IMF relative to world output, trade, and capital movements has shrunk, Ministers call for a significant augmentation of the IMF's financial resources to strengthen its role. Consideration should be given to accelerating a review of the World Bank's capital base and share allocations.

16. Ministers reiterate their call for a general allocation of SDRs, which would assist in the recovery of the world economy and alleviate concerns about global deflation. They also urge those countries that have not done so to ratify promptly the equity SDR allocation under the Fourth Amendment of the IMF's Articles of Agreement, which was agreed in 1998.

VI. IMPLEMENTING THE MONTERREY CONSENSUS AND ACHIEVING THE MDGs

17. Ministers reiterate their commitment to the Monterrey Consensus, which they see as a turning point in international economic cooperation and a signal of a new partnership in international economic relations based on consensus-building.

18. Ministers point out that concrete actions have been taken to develop effective and cooperative follow-up processes on implementation of the consensus. However, they regret that progress in several key policy areas, including trade and official development assistance (ODA), has been weak or nonexistent, and in some cases, there have been backward steps. Moreover, Ministers believe that, based on the current trend, the MDGs will not be achieved. They emphasize that their fulfillment requires a determined and sustained implementation of agreed strategies and partnerships by both developed and developing countries, as well as IFIs, in accordance with their commitment in Monterrey. Ministers note with concern the continuing downward trend in ODA flows, and call upon donors to step up their assistance efforts to reach the UN target of 0.7 percent of GNI and help reach the MDGs.

VII. HIPC INITIATIVE AND PRSP PROCESS

19. Ministers note that substantial debt relief has been obtained by a number of countries under the HIPC Initiative. However, they regret that the Initiative is falling short of the objectives for which it was established. Ministers are concerned about the slow pace with which countries are progressing to their completion point, as well as with the difficulties faced by eligible countries to qualify for the Initiative. They reiterate their call for all creditors to participate and deliver their share of the agreed debt relief, with due consideration for the particular circumstances of developing countries and urge the provision of adequate resources for topping up operations. However, they are concerned that, even with topping up, many HIPCs will not attain sustainable debt positions. Ministers emphasize the need for the re-examination of the HIPC Initiative framework including the underlying thresholds, projections, and the adequacy of resources to achieve debt sustainability at the completion point. They urge the international community to stand ready to assist countries beyond the completion point when their debt sustainability is threatened.

20. Ministers urge that consideration be given to addressing the debt sustainability of non-HIPC low-income countries and middle-income heavily indebted countries.

21. Ministers note the design and implementation of PRSPs by low-income countries and urge for consistent support by donors and IFIs to implement them on a sustainable basis. However, they underscore the importance of aligning the PRGF and the PRSP approach to make the support more effective. Such alignment would not only strengthen countries' poverty reduction strategies, but also enhance ownership and sustain policy implementation.

VIII. TRADE

22. Ministers see trade as a powerful mechanism for developing countries to benefit from globalization and for poverty reduction and growth. They express grave concern over the continued failure of the Doha Round to address the issues of agricultural subsidies and generic drugs, and question the consistency of the above with the developed countries' commitment to the Monterrey Consensus. They call upon industrial countries to do more to open their markets, especially for agriculture, textiles, and clothing, to all developing countries and to eliminate tariff peaks and trade-distorting subsidies, non-tariff barriers and procedural impediments.

23. Ministers consider that the success of the upcoming WTO Cancun Ministerial Conference is necessary for the sustained recovery of the world economy.

IX. DATE AND PLACE OF NEXT MEETING

24. The next meeting of the G-24 Ministers is scheduled to take place on September 20, 2003 in Dubai.